

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2014

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-51612

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation or organization)

68-0542002
(I.R.S. Employer
Identification No.)

305 Camp Craft Road, Suite 525, Austin, TX 78746
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 512.222.0975

Securities registered pursuant to Section 12(b) of the Act:

None

Title of each class

N/A

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **\$2,216,014.515 based on a price of \$0.045 per share, average bid and asked price, as of the last business day of the registrant's most recently completed second fiscal quarter.**

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **54,182,267 shares of common stock as at December 16, 2014.**

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Not Applicable

EXPLANATORY NOTE

This Amendment to Annual Report on Form 10-K/A amends and restates certain parts of the Annual Report on Form 10-K for the year ended September 30, 2014 that was filed by Arkanova Energy Corporation with the Securities and Exchange Commission on December 23, 2014. This Amendment corrects the errors described below.

1. We expanded our disclosure under Item 2 on page 14 to include barrel and sand details of the three other wells referenced, and the extent to which hydraulic fracturing is employed in our operations.
2. We updated our management discussion and analysis to: (i) more clearly quantify the amount of year-over-year variance in operating results that is attributable to each factor cited as a cause of such variance; and (ii) address also significant changes in balance sheet items and the reasons for such variance.
3. Corrected references to “MbbI” with “BBL” to accurately reflect barrel denominations.
4. Clarified that Mr. Hofer is a non-employee director where applicable.
5. Expanded Item 13 - *Certain Relationships and Related Transactions, and Director Independence* to include the note payable disclosure referenced in other sections of the Annual Report.

Except for the correction of the recently discovered errors described above, this Amendment to Annual Report on Form 10-K/A does not update any disclosure from, or reflect any event occurring subsequent to December 23, 2014 which is the filing date of the original Annual Report on Form 10-K.

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PART I

FORWARD LOOKING STATEMENTS.

This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, that may cause our company’s or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our audited consolidated financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles. The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes that appear elsewhere in this report.

In this report, unless otherwise specified, all references to “common shares” refer to the shares of our common stock and the terms “we”, “us”, “our company” and “Arkanova” mean Arkanova Energy Corporation.

ITEM 1. BUSINESS.

We were incorporated in the State of Nevada on September 6, 2001 under the name Talon Ventures, Inc.

On January 15, 2003, we changed our name to Alton Ventures, Inc. On October 20, 2006, we entered into an agreement and plan of merger with Arkanova Acquisition Corp., our wholly-owned subsidiary, and Arkanova Energy, Inc., a private Delaware corporation. The agreement and plan of merger contemplated the merger of Arkanova Energy, Inc. with and into Arkanova Acquisition Corp., with Arkanova Acquisition Corp. surviving as our wholly-owned subsidiary. Effective November 1, 2006, we changed our name from Alton Ventures Inc. to Arkanova Energy Corporation. The closing of the agreement and plan of merger occurred on March 1, 2007. As of that date, we acquired all of the property interests formerly held by Arkanova Energy, Inc.

We are a junior producing oil and gas company and are also engaged in the acquisition, exploration and development of prospective oil and gas properties. We hold mineral leases in Delores County, Lone Mesa State Park, Colorado and leasehold interests located in Pondera and Glacier Counties, Montana. Please see the information under the heading “Item 2. Properties” on page 11 of this annual report for a detailed description of our property interests, including disclosure of our oil and gas operations with respect to our Montana property.

In addition to our existing property interests, we intend to acquire additional oil and gas property interests in the future. Management believes that future growth of our company will primarily occur through the exploration and development of our existing properties and through the acquisition of additional oil and gas properties following extensive due diligence by our company. However, we may elect to proceed through collaborative agreements and joint ventures in order to share expertise and reduce operating costs with other experts in the oil and gas industry. We anticipate that the analysis of new property interests will be undertaken by or under the supervision of our management and board of directors.

Competition

We are a junior producing oil and gas company and are also engaged in the acquisition of prospective oil and gas properties for exploration and development. We compete with other junior producing companies in addition to significantly larger companies. As we are also engaged in the exploration and development of prospective properties, we also compete with companies for the identification of such properties and the financing necessary to develop such properties.

We conduct our business in an environment that is highly competitive and unpredictable. In seeking out prospective properties, we have encountered intense competition in all aspects of our business as we compete directly with other development stage companies as well as established international producing companies. Many of our competitors are national or international companies with far greater resources, capital and access to information than us. Accordingly, these competitors may be able to spend greater amounts on the acquisition of prospective properties and on the exploration and development of such properties. In addition, they may be able to afford greater geological expertise in the exploration and exploitation of mineral and oil and gas properties. This competition could result in our competitors having resource properties of greater quality and attracting prospective investors to finance the development of such properties on more favorable terms. As a result of this competition, we may become involved in an acquisition with more risk or obtain financing on less favorable terms.

Customers

There are no contracts obligating our company to provide a fixed quantity of oil and gas to any party. We have a contract with CHS Inc., that provides for their taking all of our oil and/or condensate production from the Unit (as defined below under Item 2. Properties beginning on page 11) unless either party gives 30 days advance written notice to terminate the agreement. In the event our contract with CHS Inc. is terminated for any reason, our company has determined that there are numerous other purchasers available to enter into a similar arrangement without a material adverse effect on our company.

Government Regulation

The exploration and development of oil and gas properties is subject to various United States federal, state and local governmental regulations. Our company may, from time to time, be required to obtain licenses and permits from various governmental authorities in regards to the exploration of our property interests.

We are a company that started to produce oil and gas during the year ended September 30, 2008 and we are subject to a high level of governmental regulation. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal, state and local laws and regulations relating primarily to the protection of human health and the environment. Additionally, we incur expenditures related to compliance with such laws, and may incur costs in connection with the remediation of any environmental contamination. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

In the spring of 2014, the US Environmental Protection Agency issued an injection well permit to Provident Energy Of Montana, LLC, Arkanova's 100% owned subsidiary, for the purpose of water injection into the MAX 1 well # 2817. The permit allowed our company to commence the re-activation of waterflood operations on our company's Montana lease acreage, The Two Medicine Cut Bank Sand Unit. Waterflood operations have started in October 2014 and are continuing as of the date of this report.

Environmental Liabilities

Our business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. Such laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling and restrict the substances that can be released into the environment with drilling and production activities. Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties.

Employees

Our company is currently operated by Pierre Mulacek as our president and chief executive officer and Reginald Denny as our chief financial officer. As of the date of this report, we had 7 employees including Pierre Mulacek and Reginald Denny. We intend to periodically hire independent contractors to execute our exploration and development activities. Our company may hire employees when circumstances warrant. At present, however, our company does not anticipate hiring any additional employees in the near future.

ITEM 1A. RISK FACTORS

Much of the information included in this annual report includes or is based upon estimates, projections or other forward looking statements. Such forward looking statements include any projections and estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other forward looking statements involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward looking statements.

Risks Relating to our Business and the Oil and Gas Industry

We have a history of losses and this trend may continue and may negatively impact our ability to achieve our business objectives.

We have experienced net losses since inception, and expect to continue to incur substantial losses for the foreseeable future. Our accumulated deficit was \$31,070,998 as at September 30, 2014. We may not be able to generate significant revenues in the future and our company has incurred increased operating expenses following the recent commencement of production. As a result, our management expects our business to continue to experience negative cash flow for the foreseeable future and cannot predict when, if ever, our business might become profitable. We will need to raise additional funds, and such funds may not be available on commercially acceptable terms, if at all. If we are unable to raise funds on acceptable terms, we may not be able to execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements. This may seriously harm our business, financial condition and results of operations.

We have a relatively limited operating history, which may hinder our ability to successfully meet our objectives.

We have a relatively limited operating history upon which to base an evaluation of our current business and future prospects. We have commenced production in the year ended September 30, 2008 and we do not have an established history of operating producing properties or locating and developing properties that have oil and gas reserves. As a result, the revenue and income potential of our business is unproven. In addition, because of our relatively limited operating history, we have limited insight into trends that may emerge and affect our business. Errors may be made in predicting and reacting to relevant business trends and we will be subject to the risks, uncertainties and difficulties frequently encountered by early-stage companies in evolving markets. We may not be able to successfully address any or all of these risks and uncertainties. Failure to adequately do so could cause our business, results of operations and financial condition to suffer.

Our operations and proposed exploration activities will require significant capital expenditures for which we may not have sufficient funding and if we do obtain additional financing, our existing shareholders may suffer substantial dilution.

We intend to make capital expenditures far in excess of our existing capital resources to develop, acquire and explore oil and gas properties. We intend to rely on funds from operations and external sources of financing to meet our capital requirements to continue acquiring, exploring and developing oil and gas properties and to otherwise implement our business plan. We plan to obtain additional funding through the debt and equity markets, but we can offer no assurance that we will be able to obtain additional funding when it is required or that it will be available to us on commercially acceptable terms, if at all. In addition, any additional equity financing may involve substantial dilution to our then existing shareholders.

The successful implementation of our business plan is subject to risks inherent in the oil and gas business, which if not adequately managed could result in additional losses.

Our oil and gas operations are subject to the economic risks typically associated with exploration and development activities, including the necessity of making significant expenditures to locate and acquire properties and to drill exploratory wells. In addition, the availability of drilling rigs and the cost and timing of drilling, completing and, if warranted, operating wells is often uncertain. In conducting exploration and development activities, the presence of unanticipated pressure or irregularities in formations, miscalculations or accidents may cause our exploration, development and, if warranted, production activities to be unsuccessful. This could result in a total loss of our investment in a particular well. If exploration efforts are unsuccessful in establishing proved reserves and exploration activities cease, the amounts accumulated as unproved costs will be charged against earnings as impairments.

In addition, market conditions or the unavailability of satisfactory oil and gas transportation arrangements may hinder our access to oil and gas markets and delay our production. The availability of a ready market for our prospective oil and gas production depends on a number of factors, including the demand for and supply of oil and gas and the proximity of reserves to pipelines and other facilities. Our ability to market such production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities, in most cases owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. We may be required to shut in wells for lack of a market or a significant reduction in the price of oil or gas or because of inadequacy or unavailability of pipelines or gathering system capacity. If that occurs, we would be unable to realize revenue from those wells until arrangements are made to deliver such production to market.

Our future performance is dependent upon our ability to identify, acquire and develop oil and gas properties, the failure of which could result in under use of capital and losses.

Our future performance depends upon our ability to identify, acquire and develop additional oil and gas reserves that are economically recoverable. Our success will depend upon our ability to acquire working and revenue interests in properties upon which oil and gas reserves are ultimately discovered in commercial quantities, and our ability to develop prospects that contain proven oil and gas reserves to the point of production. Without successful acquisition and exploration activities, we will not be able to develop additional oil and gas reserves or generate additional revenues. We cannot provide you with any assurance that we will be able to identify and acquire additional oil and gas reserves on acceptable terms, or that oil and gas deposits will be discovered in sufficient quantities to enable us to recover our exploration and development costs or sustain our business.

The successful acquisition and development of oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities, and other factors. Such assessments are necessarily inexact and their accuracy inherently uncertain. In addition, no assurance can be given that our exploration and development activities will result in the discovery of additional reserves. Our operations may be curtailed, delayed or canceled as a result of lack of adequate capital and other factors, such as lack of availability of rigs and other equipment, title problems, weather, compliance with governmental regulations or price controls, mechanical difficulties, or unusual or unexpected formations, pressures and or work interruptions. In addition, the costs of exploitation and development may materially exceed our initial estimates.

We have a very small management team and the loss of any member of our team may prevent us from implementing our business plan in a timely manner.

We have two executive officers and a limited number of additional consultants upon whom our success largely depends. We maintain a key person life insurance policy on our president and CEO, but not on anyone else, nor any consultants, the loss of which could seriously harm our business, financial condition and results of operations. In such an event, we may not be able to recruit personnel to replace our executive officers or consultants in a timely manner, or at all, on acceptable terms.

Future growth could strain our personnel and infrastructure resources, and if we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to successfully implement our business plan.

We expect to experience growth in our operations, which will place a significant strain on our management, administrative, operational and financial infrastructure. Our future success will depend in part upon the ability of our management to manage growth effectively. This may require us to hire and train additional personnel to manage our expanding operations. In addition, we must continue to improve our operational, financial and management controls and our reporting systems and procedures. If we fail to successfully manage our growth, we may be unable to execute upon our business plan.

Market conditions or operation impediments may hinder our access to natural gas and oil markets or delay our production.

The marketability of production from our properties depends in part upon the availability, proximity and capacity of pipelines, natural gas gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. Therefore, if drilling results are positive in certain areas of our oil and gas properties, a new gathering system would need to be built to handle the potential volume of oil and gas produced. We might be required to shut in wells, at least temporarily, for lack of a market or because of the inadequacy or unavailability of transportation facilities. If that were to occur, we would be unable to realize revenue from those wells until arrangements were made to deliver production to market.

Our ability to produce and market natural gas and oil is affected and also may be harmed by:

- the lack of pipeline transmission facilities or carrying capacity;

- government regulation of natural gas and oil production;
- government transportation, tax and energy policies;
- changes in supply and demand; and
- general economic conditions.

We might incur additional debt in order to fund our exploration and development activities, which would continue to reduce our financial flexibility and could have a material adverse effect on our business, financial condition or results of operations.

When we incur indebtedness, the ability to meet our debt obligations and reduce our level of indebtedness depends on future performance. General economic conditions, oil and gas prices and financial, business and other factors affect our operations and future performance. Many of these factors are beyond our control. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our current or future debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets and performance at the time we need capital. We cannot assure you that we will have sufficient funds to make such payments. If we do not have sufficient funds and are otherwise unable to negotiate renewals of our borrowings or arrange new financing, we might have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results.

Our properties in Colorado and Montana and/or future properties might not produce, and we might not be able to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause us to incur losses.

Although we have reviewed and evaluated our properties in Colorado and Montana in a manner consistent with industry practices, such review and evaluation might not necessarily reveal all existing or potential liabilities. This is also true for any future acquisitions made by us. Inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and we may assume environmental and other risks and liabilities in connection with the acquired properties.

If we or our operators fail to maintain adequate insurance, our business could be materially and adversely affected.

Our operations are subject to risks inherent in the oil and gas industry, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, and suspension of operations. We could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations.

Any prospective drilling contractor or operator which we hire will be required to maintain insurance of various types to cover our operations with policy limits and retention liability customary in the industry. We also have acquired our own insurance coverage for such prospects. The occurrence of a significant adverse event on such prospects that is not fully covered by insurance could result in the loss of all or part of our investment in a particular prospect which could have a material adverse effect on our financial condition and results of operations.

The oil and gas industry is highly competitive, and we may not have sufficient resources to compete effectively.

The oil and gas industry is highly competitive. We compete with oil and natural gas companies and other individual producers and operators, many of which have longer operating histories and substantially greater financial and other resources than we do, as well as companies in other industries supplying energy, fuel and other needs to consumers. Our larger competitors, by reason of their size and relative financial strength, can more easily access capital markets than we can and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to absorb the burden of any changes in laws and regulation in the jurisdictions in which we do business and handle longer periods of reduced prices for oil and gas more easily than we can. Our competitors may be able to pay more for oil and gas leases and properties and may be able to define, evaluate, bid for and purchase a greater number of leases and properties than we can. Further, these companies may enjoy technological advantages and may be able to implement new technologies more rapidly than we can. Our ability to acquire additional properties in the future will depend upon our ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

Complying with environmental and other government regulations could be costly and could negatively impact our production.

Our business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. Such laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling and restrict the substances that can be released into the environment with drilling and production activities.

Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. Prior to commencement of drilling operations, we may secure limited insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost. Accordingly, we could be liable, or could be required to cease production on properties, if environmental damage occurs.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations could result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect our cost of operations or our ability to operate according to our business plans.

If drilling activity increases in Colorado, Montana or the southern United States generally, a shortage of drilling and completion rigs, field equipment and qualified personnel could develop. The demand for and wage rates of qualified drilling rig crews generally rise in response to the increasing number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail our exploration and development operations, which could in turn harm our operating results.

We will be required to replace, maintain or expand our reserves in order to prevent our reserves and production from declining, which would adversely affect cash flows and income.

In general, production from natural gas and oil properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. If we are not successful in our exploration and development activities, our proved reserves will decline as reserves are produced. Our future natural gas and oil production is highly dependent upon our ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing prices for natural gas and oil or an increase in exploration and development costs, and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of natural gas and oil reserves would be impaired. Even with sufficient available capital, our future exploration and development activities may not result in additional proved reserves, and we might not be able to drill productive wells at acceptable costs.

The geographic concentration of all of our other properties in Colorado and Montana subjects us to an increased risk of loss of revenue or curtailment of production from factors affecting those areas.

The geographic concentration of all of our leasehold interests in Lone Mesa State Park, Colorado and Pondera and Glacier Counties, Montana means that our properties could be affected by the same event should the region experience:

- severe weather;
- delays or decreases in production, the availability of equipment, facilities or services;
- delays or decreases in the availability of capacity to transport, gather or process production; or
- changes in the regulatory environment.

The oil and gas exploration and production industry historically is a cyclical industry and market fluctuations in the prices of oil and gas could adversely affect our business.

Prices for oil and gas tend to fluctuate significantly in response to factors beyond our control. These factors include:

- weather conditions in the United States and wherever our property interests are located;
- economic conditions, including demand for petroleum-based products, in the United States wherever our property interests are located;
- actions by OPEC, the Organization of Petroleum Exporting Countries;
- political instability in the Middle East and other major oil and gas producing regions;
- governmental regulations, both domestic and foreign;
- domestic and foreign tax policy;
- the pace adopted by foreign governments for the exploration, development, and production of their national reserves;
- the price of foreign imports of oil and gas;
- the cost of exploring for, producing and delivering oil and gas;
- the discovery rate of new oil and gas reserves;
- the rate of decline of existing and new oil and gas reserves;
- available pipeline and other oil and gas transportation capacity;
- the ability of oil and gas companies to raise capital;
- the overall supply and demand for oil and gas; and
- the availability of alternate fuel sources.

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment.

Changes in commodity prices may also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and the exploration and development of projects. We expect that commodity prices will continue to fluctuate significantly in the future.

Our ability to produce oil and gas from our properties may be adversely affected by a number of factors outside of our control which may result in a material adverse effect on our business, financial condition or results of operations.

The business of exploring for and producing oil and gas involves a substantial risk of investment loss. Drilling oil and gas wells involves the risk that the wells may be unproductive or that, although productive, the wells may not produce oil or gas in economic quantities. Other hazards, such as unusual or unexpected geological formations, pressures, fires, blowouts, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic if water or other deleterious substances are encountered that impair or prevent the production of oil or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. There can be no assurance that oil and gas will be produced from the properties in which we have interests. In addition, the marketability of oil and gas that may be acquired or discovered may be influenced by numerous factors beyond our control. These factors include the proximity and capacity of oil and gas, gathering systems, pipelines and processing equipment, market fluctuations in oil and gas prices, taxes, royalties, land tenure, allowable production and environmental protection. We cannot predict how these factors may affect our business.

We may be unable to retain our leases and working interests in our leases, which would result in significant financial losses to our company.

Our properties are held under oil and gas leases. If we fail to meet the specific requirements of each lease, such lease may terminate or expire. We cannot assure you that any of the obligations required to maintain each lease will be met. The termination or expiration of our leases may harm our business. Our property interests will terminate unless we fulfill certain obligations under the terms of our leases and other agreements related to such properties. If we are unable to satisfy these conditions on a timely basis, we may lose our rights in these properties. The termination of our interests in these properties may harm our business. In addition, we will need significant funds to meet capital requirements for the exploration activities that we intend to conduct on our properties.

Title deficiencies could render our leases worthless which could have adverse effects on our financial condition or results of operations.

The existence of a material title deficiency can render a lease worthless and can result in a large expense to our business. It is our practice in acquiring oil and gas leases or undivided interests in oil and gas leases to forego the expense of retaining lawyers to examine the title to the oil or gas interest to be placed under lease or already placed under lease. Instead, we rely upon the judgment of oil and gas landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease a specific oil or gas interest. This is customary practice in the oil and gas industry. However, we do not anticipate that we, or the person or company acting as operator of the wells located on the properties that we currently lease or may lease in the future, will obtain counsel to examine title to the lease until the well is about to be drilled. As a result, we may be unaware of deficiencies in the marketability of the title to the lease. Such deficiencies may render the lease worthless.

Our disclosure controls and procedures and internal control over financial reporting were not effective, which may cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public.

Our management evaluated our disclosure controls and procedures as of September 30, 2014 and concluded that as of that date, our disclosure controls and procedures were not effective. In addition, our management evaluated our internal control over financial reporting as of September 30, 2014 and concluded that there were material weaknesses in our internal control over financial reporting as of that date and that our internal control over financial reporting was not effective as of that date. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

We have not yet remediated this material weakness and we believe that our disclosure controls and procedures and internal control over financial reporting continue to be ineffective. Until these issues are corrected, our ability to report financial results or other information required to be disclosed on a timely and accurate basis may be adversely affected and our financial reporting may continue to be unreliable, which could result in additional misinformation being disseminated to the public. Investors relying upon this misinformation may make an uninformed investment decision.

Risks Relating To Our Common Stock

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our ability to continue operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because a significant portion of our operations have been and will be financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our operations. Such reductions may force us to reallocate funds from other planned uses and may have a significant negative effect on our business plan and operations, including our ability to develop new properties and continue our current operations. If our stock price declines, we can offer no assurance that we will be able to raise additional capital or generate funds from operations sufficient to meet our obligations. If we are unable to raise sufficient capital in the future, we may not be able to have the resources to continue our normal operations.

The market price for our common stock may also be affected by our ability to meet or exceed expectations of analysts or investors. Any failure to meet these expectations, even if minor, may have a material adverse effect on the market price of our common stock.

If we issue additional shares in the future, it will result in the dilution of our existing shareholders.

Our articles of incorporation, as amended, authorizes the issuance of up to 1,000,000,000 shares of common stock with a par value of \$0.001. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares will result in a reduction of the book value and market price of the outstanding shares of our common stock. If we issue any such additional shares, such issuance will cause a reduction in the proportionate ownership and voting power of all current shareholders. Further, such issuance may result in a change of control of our corporation.

Trading of our stock may be restricted by the Securities Exchange Commission's penny stock regulations, which may limit a stockholder's ability to buy and sell our stock.

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the

stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a stockholder's ability to buy and sell our stock.

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

Our common stock is illiquid and the price of our common stock may be negatively impacted by factors which are unrelated to our operations.

Our common stock currently trades on a limited basis on OTCQB operated by the OTC Markets Group. Trading of our stock through OTCQB is frequently thin and highly volatile. There is no assurance that a sufficient market will develop in our stock, in which case it could be difficult for shareholders to sell their stock. The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of our competitors, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Executive Offices

Our executive and head office is located at 305 Camp Craft Road, Suite 525, Austin, TX 78746. We lease the office on a month-to-month basis at a cost of \$4,960.26 per month. Our current premises are adequate for our current operations and we do not anticipate that we will require any additional premises in the foreseeable future.

We currently hold property interests in three counties in the United States, which include one county in the State of Colorado and two counties in the State of Montana as summarized below.

Montana Properties

On August 21, 2008, our wholly-owned subsidiary, Arkanova Acquisition Corporation, entered into a stock purchase agreement with Billie J. Eustice and the Gary L. Little Trust to acquire all of the issued and outstanding capital stock of Prism Corporation, an Oklahoma corporation, for a purchase price of \$6,000,000.

Following the closing, we acquired all of the membership interests of Provident Energy of Montana, LLC (formerly known as Provident Energy Associates of Montana, LLC), which holds all of the leasehold interests comprising the Two Medicine Cut Bank Sand Unit in Pondera and Glacier Counties (the "Unit"), Montana, and the equipment, parts, machinery, fixtures and improvements located on, or used in connection with, the Unit. The Unit covers approximately 9,900 acres and is located at the far southern end of the Cut Bank Field and is part of the Blackfeet

Indian Reservation. Since the establishment of the Unit in 1959, there have been 82 wells drilled on the Unit and there are currently 36 wells producing oil from the Unit. Of the 82 wells, 7 have been plugged and abandoned. Ownership of these leasehold interests granted us the right to develop and produce all of the oil and gas reserves under the Unit.

The funds used to make the acquisition were provided by an unaffiliated lender and, as part of the loan transaction, our subsidiary pledged the shares of Prism it acquired to secure the loan. The terms of the \$9,000,000 loan stated that the proceeds were to be used for the acquisition of the Unit, the oil and gas leases comprising same, the fixtures and equipment therewith, all the capital stock of Prism Corporation and for general working capital purposes.

On April 9, 2010, our subsidiary, Provident Energy of Montana LLC, entered into a Purchase and Sale Agreement with Knightwall Invest, Inc. Pursuant to the agreement, Provident Energy agreed to sell to Knightwall Invest 30% of the leasehold working interests comprising the Unit and the equipment, parts, machinery, fixtures and improvements located on, or used in connection with, the Unit, for a purchase price of \$7,000,000. The closing of the purchase and sale, which was subject to the payment in full of all instalments of the purchase price and other conditions of closing, was scheduled to occur on August 6, 2010 but was delayed because of delayed drilling commitments. The final closing took place on November 23, 2010 with the final payment of \$1,500,000 being received. Knightwall Invest was a lender to our company and it had an outstanding loan to our company of \$330,000 in principal amount bearing interest at the rate of 10% per annum and due and payable by our company on July 8, 2010, plus interest of \$33,000. The total amount due (\$367,077.53, which included accrued interest to the date of payment) was paid in full from the portion of the purchase price paid by Knightwall Invest on August 3, 2010.

The purchase price was payable in instalments, with the initial payment of \$1,500,000 paid on April 8, 2010, a second payment of \$2,000,000 was paid on July 8, 2010, a third payment of \$2,000,000 (\$367,077.53 of which Knightwall Invest applied to the payment in full of its loan to our company) being due on July 8, 2010 and paid on August 3, 2010, and the remaining final \$1,500,000 being paid on November 23, 2010.

On November 22, 2010, Provident entered into an option agreement with Knightwall Invest pursuant to which Provident Energy granted an option to Knightwall Invest to purchase an additional 5% working interest in the Unit. On March 15, 2011, Knightwall Invest exercised the option and paid \$1,500,000 to Provident on April 5, 2011. The proceeds of \$1,500,000 were applied against the full cost pool resulting in a gain on sale of oil and gas properties in the amount of \$1,438,396. Knightwall Invest currently holds a 35% working interest in the Unit.

On October 21, 2011, our subsidiary entered into a Conversion and Loan Modification Agreement and a Note Purchase Agreement with Aton Select Funds Limited which were effective as of October 1, 2011, and pursuant to which Aton agreed to, among other things, convert \$6,000,000.00 of the remaining principal balance of a Promissory Note that our subsidiary issued to Aton on October 1, 2009 into a 10% working interest in the Unit. Please see Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Outstanding Promissory Notes” beginning on page 20 for additional information.

Reserves

The following estimates of proved reserve and proved developed reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values of our company’s reserves. We emphasize that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available.

Future cash flows are computed by applying prices of oil which are based on the respective 12-month unweighted average of the first of the month prices to period end quantities of proved oil reserves. The 12-month unweighted average of the first of the month market prices used for the standardized measures below was \$77.69 and \$78.77/barrel for liquids for September 30, 2014 and 2013, respectively. Future operating expenses and development costs are computed primarily by our company’s petroleum engineers by estimating the expenditures to be incurred in developing and producing our company’s proved natural gas and oil reserves at the end of the period, based on period end costs and assuming continuation of existing economic conditions.

Future income taxes are based on period end statutory rates, adjusted for tax basis and applicable tax credits. A discount factor of 10% was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost of fair value of our company's natural gas and oil properties. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimate of natural gas and oil producing operations.

A November 25, 2013 report of Gustavson Associates prepared on our Montana Properties was attached as an exhibit to our annual report on Form 10-K filed on December 24, 2013. An updated report of Gustavson Associates dated November 18, 2014 was attached as an exhibit to our annual report on Form 10-K filed on December xx, 2014.

Proved Oil and Gas Reserve Quantities

| | September 30, 2014 | September 30, 2013 |
|----------------------------------|-------------------------------|-------------------------------|
| | Oil (Mbb BBL)* | Oil (Mbb BBL)* |
| Balance beginning of the year | 38,170 | 87,678 |
| Revisions of previous estimates | 4,685 | (39,726) |
| Production | (9,765) | (9,782) |
| Transfer of oil and gas interest | — | - |
| Balance end of the year | 33,090 | 38,170 |

*~~Thousand barrels~~Barrels

Standardized Measure of Discounted Future Net Cash Flow

| | September 30, 2014 |
|--|--------------------|
| Future cash inflows | \$ 2,570,759 |
| Future production and development costs | (1,437,698) |
| Future income tax expenses | (396,571) |
| Future net cash flows | 736,490 |
| 10% annual discount for estimated timing of cash flows | (153,925) |
| Standardized measure of discounted future net cash flows | \$ 582,565 |

Production

During the year ended September 30, 2014, the average net sales price per barrel of oil received by contract was \$77.82/barrel. The average net production cost was \$80.08 per barrel. The high cost of production was due to upgrading flow lines, facilities, batteries, and well bores as the property was not maintained for several years.

We are currently producing approximately 1,400 to 2,600 barrels per month and intend to eventually increase this production to over 3,000 barrels per month.

Productive Wells and Acreage

As of September 30, 2014, there were 75 net oil wells on the lease of which 36 are now oil producing. This has increased from 12 wells that were producing in October 2008 at the time we acquired the property interests.

Undeveloped Acreage

All of the 9,900 acres on the Unit are considered to be developed and developmental acreage. Provident Energy has worked with Schlumberger to develop infield vertical and horizontal drilling locations. We believe that the property has 80 acre spacing with the potential for 40 acre to 20 acre spacing allowing for a minimum of 80 infield drilling locations. We believe that the property also has the potential for 30 Bakken type horizontal wells based on 320 acre spacing.

Drilling Activity

On August 12, 2011, we announced that Provident Energy of Montana, LLC finished the completion of the six stage perf and frac of the Tribal-Max 1-2817; the first horizontal well drilled in the Cut Bank Sand formation. In addition the company also recompleted three existing vertical wells within the Two Medicine Cut Bank Sand Unit (TMCBSU).

The Tribal-Max 1-2817 as of the date of this report was still flowing back at a high rate and pressure. Completion of the Tribal-Max 1-2817 included a six stage frac consisting of approximately 12,410 barrels of stimulation fluid and 474,981 pounds of sand. Three other wells within the field were also stimulated, achieving near to or exceeded design parameters. [which consisted of approximately 3,379 barrels of stimulation fluid and 92,650 pounds of sand. We have not done any fracturing of wells since August 2011 and do not have any planned for the future.](#)

Present Activities

As of the date of this report, we are continuing our efforts to bring more producing wells on line through recompletion and reactivation of existing wells to more than 36 in 2014. In the spring of 2014, the Environmental Protection Agency issued an injection well permit to Provident Energy Of Montana, LLC, Arkanova's 100% owned subsidiary, for the purpose of water injection into the MAX 1 well # 2817. The permit will now allow our company to commence the re-activation of waterflood operations on our company's Montana lease acreage, The Two Medicine Cut Bank Sand Unit (TMCBSU), for the purpose of attempting to increase oil production from our lease wells. We have proceeded with the installation of new equipment at the injection plant, replacing injection lines, and associated equipment for the waterflood project.

The budgeted amount is \$3 million for the waterflood re-activation. The financing and support are now in place to accomplish our goals of increasing anticipated oil production and value to the shareholders. Provident has a 55% working interest of approximately 80% net revenue interest in approximately 9,900 acres in Pondera and Glacier Counties, Montana, the TMCBSU. It is the hope of our company that this pilot project will be successful and lead to the expansion of injection to the balance of the lease acreage.

In the third quarter of 2015, we plan to drill a second Bakken test well in Pondera County near the southern end of our existing TMCBSU lease. This vertical well is for testing the Bakken intervals so to correlate with the geology learned from the MAX 1 well # 2817.

Delivery Commitments

There are no contracts obligating our company to provide a fixed quantity of oil and gas to any party. We have a contract with CHS Inc., that provides for their taking all of our oil and/or condensate production from the unit unless either party gives 30 days advance written notice to terminate the agreement.

Internal Controls Over Reserves Estimates

Estimates of proved reserves at September 30, 2014, 2013 and 2012 were prepared by Gustavson Associates, LLC, our independent consulting petroleum engineers. The technical persons responsible for preparing the reserve estimates are independent petroleum engineers, geologists, economists, and appraisers and prepared the estimate of reserves in accordance with the US Securities and Exchange Commission's definitions and guidelines. Gustavson Associates, LLC, holds neither direct nor indirect financial interest in the subject properties, in Provident Energy of Montana, LLC, or in any other affiliated companies. Our independent engineering firm reports jointly to the board of directors and to our President and Chief Executive Officer, Pierre Mulacek. For information regarding the experience and qualifications of the members of our board of directors and our President, please see Item 10 - "Directors, Executive Officers and Corporate Governance" beginning on page 47.

Colorado Property

Effective February 15, 2008, Arkanova Acquisition Corporation, our wholly-owned subsidiary leased a total of 1,320 gross mineral acres in Delores County, Colorado from The Curtis Jones Family Trust, Vera Lee Redd Family Trust and Redd Royalties Ltd. for an aggregate price of \$93,500. The initial term of the leases is for seven years, and continues thereafter so long as oil or gas is being produced from the lease areas in paying quantities. We anticipate we will have a 100% working interest in the property and an approximate combined net royalty of 83.25%, with the remaining royalty interest to the lessors. In connection with the acquisition of the lease from The Curtis Jones Family Trust, we agreed to pay a third-party a 3.5% overriding royalty on 220 net mineral acres. The exploration targets on this prospect include a series of fractured black shales of the Pennsylvanian age Paradox Formation with drilling depths of 8,000 feet to 9,500 feet. The target intervals were already encountered in a well located on the leasehold, which was drilled for deeper oil targets and then was plugged in a time when gas was uneconomic due to price. In the 100 foot thick main target interval, the gas show while drilling was reported to be 14,000 units of C1 (28,000+ units by chromatograph) and pressure was calculated at approximately 4,600 psi. We plan to request permission from the State of Colorado to re-enter and complete this bypassed gas pay when natural gas prices become economical to do so. Gas prices at current levels do not warrant the re-newing of these leases and we may decide to let them expire in 2015.

Undeveloped Acreage

We do not have any undeveloped acreage and are not planning to purchase any.

Drilling Activity

There has not been any drilling activity on the leases in the last three years and we do not plan to drill any wells in 2014.

Prior Arkansas Properties

Pursuant to the terms of an oil and gas lease acquisition and development agreement dated July 24, 2006, we acquired leases of mineral rights in approximately 50,000 acres of prospective oil and gas lands located in Phillips and Monroe Counties, Arkansas.

The Arkansas well, the DB Griffin #1-33, was drilled to a total depth of 7,732 feet on November 29, 2007. It was evaluated and the decision was made to plug and abandon the well in May 2011.

Under the terms of the acquisition and development agreement, we were obligated to pay approximately an additional \$5,600,000 to acquire the remainder of the acreage which we had committed to acquire, unless we elected to pay a majority of the costs with shares of our common stock at \$1.25 per share. In addition, we were required to drill five additional wells within 24 months, from the date upon which we would have made the last of the lease bonus payments as required in the agreement. These wells were never drilled. We do not anticipate paying the final lease payment. It is the opinion of management that any and all obligations have expired with respect to these leases due to non-performance.

Management chose not to re-negotiate the expired Arkansas leases because of the costs of exploration and development in undeveloped acreage, natural gas prices being uneconomical, the depth of the possible play and any funding could be better utilized in our producing area of Montana.

ITEM 3. LEGAL PROCEEDINGS.

We know of no material, active or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock trades on OTCQB operated by the OTC Markets Group under the symbol "AKVA".

The following quotations obtained from the OTCQB reflect the high and low bids for our common stock based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The high and low bid prices of our common stock for the periods indicated below are as follows:

| Quarter Ended | High | Low |
|----------------------|-------------|------------|
| September 30, 2014 | \$0.045 | \$0.025 |
| June 30, 2014 | \$0.045 | \$0.18 |
| March 31, 2014 | \$0.04 | \$0.04 |
| December 31, 2013 | \$0.055 | \$0.025 |
| September 30, 2014 | \$0.03 | \$0.02 |
| June 30, 2013 | \$0.03 | \$0.0155 |
| March 31, 2013 | \$0.0425 | \$0.0155 |
| December 31, 2012 | \$0.03 | \$0.009 |

On December 16, 2014, the closing price of our common stock as reported by OTCQB was \$0.016.

Our transfer agent and registrar for our common stock is Pacific Stock Transfer Company, located at 4045 South Spencer Street, Suite 403, Las Vegas, NV 89119, Tel: (702) 361-3033, Fax: (702) 433-1979, E-mail: info@pacificstocktransfer.com.

Holders

On December 16, 2014, there were approximately 108 registered shareholders of our common stock and 54,182,267 common shares issued and outstanding.

Dividends

We have not declared or paid any cash dividends since inception. Although there are no restrictions that limit our ability to pay dividends on our common shares, we intend to retain future earnings, if any, for use in the operation and expansion of our business and do not intend to pay any cash dividends in the foreseeable future.

Securities authorized for issuance under equity compensation plans

On April 25, 2007, our compensation committee and board of directors adopted a stock option plan named the 2007 Stock Option Plan, the purpose of which is to attract and retain the best available personnel and to provide incentives to employees, officers, directors and consultants, all in an effort to promote the success of our company. The 2007 Stock Option Plan initially authorized our company to issue 2,500,000 shares of common stock. On November 14, 2008, we amended the 2007 Stock Option Plan, renamed the plan the 2008 Amended Stock Option Plan and increased the number of shares available for issuance from 2,500,000 to 5,000,000.

The following table provides a summary of the number of stock options granted under the 2008 Amended Stock Option Plan, the weighted average exercise price and the number of stock options remaining available for issuance under the 2008 Amended Stock Option Plan, all as at September 30, 2014:

| | Number of securities to be issued upon exercise of outstanding options | Weighted-Average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plan |
|--|--|--|---|
| Equity compensation plans not approved by security holders | 4,800,000 | \$0.10 | 200,000 |
| Equity compensation plans approved by security holders | Nil | Nil | Nil |

Re-pricing of Stock Options

On November 15, 2013, we re-priced 3,200,000 stock options granted to directors, officers, employees and consultants to \$0.10 and extended the expiry dates of the stock options as noted below:

| Name | Position | Date of Grant | No. of Options | Original Exercise Price | Original Expiry Date | New Expiry Date |
|------------------|--------------------|-------------------|------------------|-------------------------|----------------------|--------------------|
| Reginald Denny | Director & Officer | November 19, 2008 | 100,000 | \$0.12 | November 19, 2013 | September 30, 2018 |
| Reginald Denny | Director & Officer | October 14, 2009 | 350,000 | \$0.20 | October 14, 2014 | December 31, 2018 |
| Burdette Taylor | Employee | October 14, 2009 | 100,000 | \$0.20 | October 14, 2014 | December 31, 2018 |
| Pierre Mulacek | Director & Officer | October 14, 2009 | 600,000 | \$0.20 | October 14, 2014 | December 31, 2018 |
| Erich Hofer | Director & Officer | October 14, 2009 | 300,000 | \$0.20 | October 14, 2014 | December 31, 2018 |
| Tommy Overstreet | Employee | August 1, 2010 | 100,000 | \$0.24 | August 1, 2015 | December 31, 2018 |
| Pierre Mulacek | Director & Officer | October 8, 2010 | 650,000 | \$0.25 | October 8, 2015 | December 31, 2018 |
| Reginald Denny | Director & Officer | October 8, 2010 | 550,000 | \$0.25 | October 8, 2015 | December 31, 2018 |
| Erich Hofer | Director & Officer | October 8, 2010 | 300,000 | \$0.25 | October 8, 2015 | December 31, 2018 |
| Burdette Taylor | Employee | October 8, 2010 | 150,000 | \$0.25 | October 8, 2015 | December 31, 2018 |
| | | | 3,200,000 | | | |

The option agreements previously signed will remain in full force and effect and will be amended solely to amend the exercise price and the expiry date.

Recent sales of unregistered securities

Since the beginning of the fiscal year ended September 30, 2014, we have not sold any equity securities that were not registered under the Securities Act of 1933 that were not previously reported in an annual report on Form 10-K, a quarterly report on Form 10-Q or a current report on Form 8-K.

Purchases of equity securities by the issuer and affiliated purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes that appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Our audited consolidated financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles.

Results of Operations for the Years Ended September 30, 2014 and 2013

The following summary of our results of operations should be read in conjunction with our audited consolidated financial statements for the years ended September 30, 2014 and ~~2012~~2013, which are included herein:

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|-------------------|--|--|
| Total revenue | \$ 844,303 | \$ 849,916 |
| Total expenses | \$ 3,155,455 | \$ 2,995,049 |
| Net (loss) income | \$ (3,005,041) | \$ (2,731,936) |

Revenues

~~During the year ended September 30, 2014, our Total revenue in~~ oil and gas sales decreased ~~from the same period in 2013 by~~ \$5,613 to \$844,303 for the year ended September 30, 2014 compared to \$849,916 for the year ended September 30, 2013.

The reason for the decrease in sales is because of the normal decline rate of the producing wells and a lower average price per barrel in the current year.

Expenses

Expenses increased by \$160,406 during the year ended September 30, 2014 to \$3,155,455 compared to ~~the same period~~ ~~in~~ \$2,995,049 during the year ended September 30, 2013. The increase is largely due to increases in depletion and impairment of oil and gas properties. During 2013 there were also gains earned on the transfer of oil and gas properties and disposal of equipment that offset the amount of expenses.

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 | Increase / Decrease % |
|--------------------------------------|--|--|-----------------------------|
| General and administrative expenses | 1,309,953 | 1,249,240 | 4.9% |
| Oil and gas production costs | 782,008 | 780,958 | 0.1% |
| Accretion | 13,236 | 12,061 | 9.7% |
| Depletion | 419,471 | 431,748 | (2.8%) |
| Impairment of oil and gas properties | 630,787 | 519,125 | 21.5% |
| Loss on disposal of equipment | -- | 1,917 | (100%) |
| | <u>3,155,455</u> | <u>2,995,049</u> | <u>5.4%</u> |

General and Administrative Expenses

General and administrative expenses increased by ~~4.9%~~[\\$60,713](#) for the year ended September 30, 2014 compared to the year ended September 30, 2013 due to increases in stock-based compensation, ~~of \$79,135~~, legal fees, ~~of \$35,657~~, and depreciation offset by a decrease in salaries ~~of \$49,176~~.

Oil and Gas Production Costs

Oil and gas production costs increased by ~~0.1%~~[\\$1,050](#) for the year ended September 30, 2014 compared to the year ended September 30, 2013 due to an overall increase in operating costs as well as higher leasing fees and production taxes.

Accretion

Accretion expenses increased by ~~9.7%~~[\\$1,175](#) for the year ended September 30, 2014 compared to the year ended September 30, 2013 due to the net present value calculation performed based on the remaining estimated life of the wells.

Depletion

Depletion expenses decreased by ~~2.8%~~[\\$12,277](#) for the year ended September 30, 2014 compared to the year ended September 30, 2013 due to a decrease in the amount of estimated reserves.

Impairment of oil and gas properties

The impairment of oil & gas properties increased by ~~21.5%~~[\\$111,662](#) for the year ended September 30, 2014 compared to the year ended September 30, 2013. This was due to the capitalized costs of the properties exceeding the future cash flows expected to be recovered from the properties.

~~Loss (gain) on disposal of equipment~~ Loss or (gain) on disposal of equipment

~~Loss or (gain) on disposal of equipment~~ decreased by ~~100%~~[\\$1,917](#) for the year ended September 30, 2014 compared to the year ended September 30, 2013. In the 2012 year equipment was sold for a profit while in the current year the proceeds received were less than the cost of the asset.

Liquidity and Capital Resources

Working Capital

| | September 30, 2014 | September 30, 2013 | Increase / Decrease |
|------------------------------|-----------------------|------------------------|------------------------|
| Current assets | \$ 1,398,594 | \$ 989,625 | 41.3% |
| Current liabilities | 2,111,316 | 11,343,860 | (81.4)% |
| Working capital (deficiency) | \$ (712,722) | \$) | (93.1)% |
| | | <u>\$ (10,354,235)</u> | |

We had cash and cash equivalents of \$646,814 and a working capital deficit of \$712,722 as of September 30, 2014 compared to cash and cash equivalents of \$540,636 and working capital deficit of \$10,354,235 as of September 30, 2013.

We anticipate that we will require approximately ~~\$4,800,000~~ \$6,300,000 for operating expenses during the next 12 months as set out below:

| Estimated Expenses for the Next 12-month Period | |
|--|----------------------------|
| Waterflood Project | \$ 3,100,000 |
| New Vertical Bakken Well | \$ 1,500,000 |
| Employee and Consultant Compensation | \$ 800,000 |
| Professional Fees | \$ 100,000 |
| General and Administrative Expenses | \$ 800,000 |
| Total | <u>\$ 6,300,000</u> |

Our company's principal cash requirements are for new infield well drilling development and current well reactivations. We anticipate such expenses will rise as we proceed to determine the feasibility of developing our current or future property interests.

We estimate that we will require approximately \$6,300,000 over the next 12-month period to fund our plan of operations. Our company plans to raise the capital required to satisfy our immediate short-term needs and additional capital required to meet our estimated funding requirements for the next 12-months primarily through the private placement of our equity securities. There is no assurance that our company will be able to obtain further funds required for our continued working capital requirements. The ability of our company to meet our financial liabilities and commitments is primarily dependent upon the continued financial support of our directors and shareholders, the continued issuance of equity to new shareholders, and our ability to achieve and maintain profitable operations.

There is substantial doubt about our ability to continue as a going concern as the continuation of our business is dependent upon obtaining further long-term financing, successful exploration of our property interests, the identification of reserves sufficient enough to warrant development, successful development of our property interests and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Due to the uncertainty of our ability to meet our current operating and capital expenses, in their report on our audited consolidated financial statements for the year ended September 30, 2014, our independent auditors included an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

Significant changes in balance sheets items

Prepaid expenses and other

At September 30, 2014, our company has \$609,512 of prepaid expenses and other assets compared to \$299,147 at September 30, 2013. The balance consists of amount receivable from our company's working interest partners and other prepaid expenses. At September 30, 2014, \$135,231 is receivable from Aton compared to \$67,431 at September 30, 2013. At September 30, 2014, \$462,550 is receivable from Knightwall compared to \$225,249 at September 30, 2013. The increase in prepaid expenses and other assets during the year ended September 30, 2014 is a result of the partners' portion of cost in excess of their portion of revenue.

Project advances

In the spring of 2014, the US Environmental Protection Agency issued an injection well permit to Provident Energy Of Montana, LLC, Arkanova's 100% owned subsidiary, for the purpose of water injection into the MAX 1 well # 2817. The permit allowed our company to commence the re-activation of waterflood operations on our company's Montana lease acreage, The Two Medicine Cut Bank Sand Unit. Waterflood operations have started in October 2014 and are continuing as of the date of this report.

During the year ended September 30, 2014, our company received advances of \$1,395,000 from the other working interest partners in relation to the Waterflood project. There were no advances received during the year ended September 30, 2013.

At September 30, 2014, our company holds a balance of \$812,114 of project advances shown as a current liability on the consolidated balance sheet. These funds will be used for costs incurred on the waterflood project.

Outstanding Promissory Notes

On October 1, 2009, our subsidiary entered into a loan consolidation agreement to consolidate its outstanding promissory notes. We requested an additional loan in the amount of \$1,168,729 to be consolidated into one new promissory note in the principal amount of \$12,000,000. Pursuant to the terms and conditions of the agreement, the new loan provided for the consolidation and cancellation of the former notes and the additional loan amount. Interest of \$818,771 on the former notes was consolidated to the new principal amount of \$12,000,000. The promissory note bears interest at 6% per annum, was due on September 30, 2011, and is secured by a pledge of all of our subsidiary's interest in its wholly-owned subsidiary, Provident Energy. Interest on the promissory note is payable 10 days after maturity in shares of our company's common stock. The number of shares payable as interest will be determined by dividing \$1,440,000 by the average stock price over the 15 business day period immediately preceding the date on which the promissory note matures.

As inducement to the note holder to provide the additional loan of \$1,168,729, our subsidiary agreed to cause our company to issue 821,918 shares of common stock to the note holder. In addition, we agreed to issue \$240,000 worth of shares of common stock to the note holder on the first anniversary of the execution of the Note Purchase Agreement. The new note is secured by a pledge of all the membership interest of Provident Energy and a guarantee of indebtedness by our company.

Our subsidiary also agreed to cause our company to issue an additional 900,000 shares of common stock to the lender following the execution of the loan consolidation agreement, in accordance with our company's heretofore unfulfilled obligation under Section 3 of the Note Purchase Agreement relating to the \$9,000,000 note. We issued the 900,000 shares on May 27, 2010.

On October 22, 2010, we issued 2,634,150 shares of common stock with a fair value of \$720,000 to Aton Select Funds Limited as an interest payment on the promissory note and on October 26, 2010, we issued an additional 878,049 common shares with a fair value of \$240,000.

On October 21, 2011, our subsidiary entered into a Conversion and Loan Modification Agreement and a Note Purchase Agreement with Aton Select Funds Limited which were effective as of October 1, 2011, and pursuant to which Aton agreed to (i) convert \$6,000,000.00 of the remaining principal balance of the Promissory Note that our subsidiary issued to Aton on October 1, 2009 (the "2009 Note") into a ten percent (10%) working interest in the oil and gas leases comprising our company's Two Medicine Cut Bank Sand Unit in Pondera and Glacier Counties, Montana, (ii) loan our subsidiary an additional \$1,000,000.00 (the "Additional Loan Amount"), (iii) consolidate the remaining post-conversion outstanding principal balance under the 2009 Note and the Additional Loan Amount into one new promissory note in the principal amount of \$7,000,000.00 (the "2011 Note").

The 2011 Note bears interest at the rate of 6% per annum, was due and payable on September 30, 2012, and, as was the case with the 2009 Note, is secured by a pledge of all of our subsidiary's interest in its wholly owned subsidiary, Provident. Interest on the 2011 Note is payable 10 days after maturity in shares of our common stock. The number of shares of our common stock payable as interest on the 2011 Note will be determined by dividing \$420,000 by the average stock price for our common stock over the 15 business day period immediately preceding the date on which the 2011 Note matures. Our subsidiary's obligations under the 2011 Note are guaranteed by our company pursuant to a Guaranty Agreement dated as of October 1, 2011.

On October 11, 2011, we issued 3,204,748 shares of common stock with a fair value of \$769,140 to Aton Select Funds Limited to settle interest payment of \$720,000 on the 2011 Note resulting in a loss of settlement of debt of \$49,140. On February 1, 2012, we adjusted the exercise price of the warrant to purchase 250,000 shares of common stock of our company which warrant was issued to John Thomas Bridge & Opportunity Fund on March 19, 2008 from \$0.27 per share to \$0.22 per share, which is the deemed price per share of the issuance to Anton Select Funds Limited.

On August 6, 2012, our wholly owned subsidiary entered into a Loan Modification Agreement and an Amended and Restated Note Purchase Agreement with Aton Select Funds Limited which were effective as of July 1, 2012, whereby Aton agreed to increase the amount outstanding under the 2011 Note by \$1,000,000.00 (the "2012 Additional Loan Amount") and consolidate the remaining balance under the 2011 Note and the 2012 Additional Loan Amount into one new amended and restated promissory note in the principal amount of \$8,315,000.00 (the "2012 Note").

The 2012 Note bears interest at the rate of 6% per annum, is due and payable on June 30, 2013, is secured by a pledge of all of our subsidiary's interest in its wholly owned subsidiary, Provident. Interest on the 2012 Note is payable 10 days after maturity in shares of our common stock. The number of shares of our common stock payable as interest on the 2012 Note will be determined by dividing \$498,900 by the average stock price for our common stock over the 15 business day period immediately preceding the date on which the 2012 Note matures. Our subsidiary's obligations under the 2012 Note are guaranteed by our company pursuant to a Guaranty Agreement dated as of July 1, 2012. We received the 2012 Additional Loan Amount evidenced by the foregoing amended and restated loan documents on October 3, 2012.

Effective February 6, 2013, Arkanova Acquisition Corporation further modified its loan with Aton effective such that Aton increased the amount outstanding under the 2012 Note by \$1,500,000.00 (the "2013 Additional Loan Amount") and consolidated the remaining balance, including accrued interest from July 1, 2012 to February 6, 2013 equal to approximately \$291,025, under the 2012 Note and the 2013 Additional Loan Amount into one new amended and restated promissory note in the principal amount of \$10,106,025.00 (the "2013 Note"). The 2013 Note bears interest at the rate of 6% per annum, was due and is payable on March 31, 2014, and is secured by a pledge of all of our wholly owned subsidiary's interest in its wholly owned subsidiary, Provident. Interest on the 2013 Note is payable 10 days after maturity in shares of our common stock. On February 8, 2013, we received \$500,000 of the 2013 Additional Loan Amount. We received the \$1,000,000 balance on June 4, 2013, completing delivery of the loan proceeds.

On November 22, 2013, our company and our wholly owned subsidiary, Arkanova Acquisition Corporation, entered into a note amendment and interest conversion agreement with Aton to be effective November 15, 2013, whereby: (i) Aton agreed to increase the amount outstanding under the 2013 Note by \$1,705,000.00 such that the outstanding principal balance under the 2013 Note equals 11,811,025.00; (ii) Aton shall converted the outstanding accrued interest equal to US\$466,815.29 into 4,668,152 shares of our common stock at a deemed price of US\$0.10 per share; and (iii) Aton agreed to extend the maturity date under the 2013 Note from March 31, 2014 to December 31, 2015. The 2013 Note was deemed to be amended in all manners and respects in order to effect the additional loan amount, the conversion and the extension and, in all other respects, the 2013 Note will remain unchanged and in full force and effect.

On November 1, 2014, our company and our wholly owned subsidiary, Arkanova Acquisition Corporation (“Acquisition Corp.”), entered into a note amendment agreement with Aton Select Funds Limited (“Aton”) to be effective November 1, 2014, whereby the parties agreed:

- (a) the maturity date under the amended and restated secured promissory note issued by Arkanova Corp. to Aton as of February 6, 2013, as amended November 15th, 2013 (the “Note”) shall be extended from December 31, 2015 to December 31, 2016 (the “Extension”),
- (b) the current outstanding accrued interest under the Note equal to US\$677,836.40 shall be added to the principal amount of the Note (the “Added Interest”),
- (c) Aton shall loan to Acquisition Corp. an additional US\$2,475,000.00 (the “Additional Loan Amount”) such that the outstanding balance under the Note (including the Added Interest) equals US\$14,963,861.40 (the “Amended Principal Amount”), and
- (d) the sections of the Note with respect to payment of interest in shares of our common be deleted such that interest payments in shares of our common stock is no longer allowed (the “Interest Payment Amendment”).

The Note will be deemed to be amended in all manners and respects related to the Additional Loan Amount, the Extension and the Interest Payment Amendment and, in all other respects, the Note will remain unchanged and in full force and effect.

Drilling, Remediation and Seismic Costs

We estimate that our exploration and development costs on our property interests will be approximately \$1,500,000 during the next 12 months, which will include drilling and, if warranted, completion costs for one vertical Bakken test well. We will need to obtain additional equity funding, and possibly additional debt funding as well, in order to be able to obtain the needed funds. Alternatively, we may be required to farmout a working interest in some of our acreage to a third party. There is no guarantee that we will be able to raise sufficient additional capital or alternatively that we will be able to negotiate a farmout arrangement on terms acceptable to us.

Estimated Timeline of Exploration Activity on Property

| Date | Objective |
|-------------|---|
| 10/1/2014 | Begin waterflood operations |
| 6/1/2015 | Drill vertical Bakken test well #1021 (Southern Star) |

Employee and Consultant Compensation

Given the early stage of our development and exploration properties, we intend to continue to outsource our professional and personnel requirements by retaining consultants on an as needed basis. We estimate that our consultant and related professional compensation expenses for the next 12-month period will be approximately \$800,000.

On November 11, 2014, we entered into an executive employment agreement effective October 1, 2014 with Pierre Mulacek, our chief executive officer, president and a director of our company. We agreed to pay an annual salary of US\$240,000 to Mr. Mulacek in consideration for him carrying out his duties as an executive of our company. Mr. Mulacek disclosed his interest with respect to the executive employment agreement and abstained from voting on the approval of the agreement. The agreement replaces a former written agreement effective July 17, 2012, as amended on March 1, 2014 (reducing Mr. Mulacek's salary from \$240,000 to \$135,000 per annum), which expired on July 17, 2014. The parties had continued under the terms of the former written agreement and sought to document the terms with an updated written agreement on the same terms of the former agreement. The only term of the new executive employment agreement that has been revised is the compensation has returned to \$240,000 per annum.

Pursuant to the terms of the agreement, and in the event our company undergoes a Change of Control Event (as defined in the agreement and described below), the agreement will automatically terminate and our company is required to pay to Mr. Mulacek an amount equal to the total of:

1. US\$360,000 (calculated as 18-months salary payable under the agreement); and
 - (a) the cost for a period of 18 months to obtain family and/or spousal health insurance that is similar in coverage to that provided to Mr. Mulacek as of the date of the change of control.

On November 11, 2014, we also entered into an executive employment agreement effective October 1, 2014 with Reginald Denny, our chief financial officer and a director of our company. We agreed to pay an annual salary of US\$175,000 to Mr. Denny in consideration for him carrying out his duties as an executive of our company. Mr. Denny disclosed his interest with respect to the executive employment agreement and abstained from voting on the approval of the agreement. The agreement also replaces a former written agreement effective July 17, 2012, as amended effective October 1, 2013 (reducing Mr. Denny's salary from \$190,000 to \$175,000 per annum), which also expired on July 17, 2014. The parties had continued under the terms of the former written agreement and sought to document the terms with an updated written agreement on the same terms of the former agreement. Under the new executive employment agreement, Mr. Denny's compensation remains at \$175,000.

Pursuant to the terms of the agreement, and in the event our company undergoes a Change of Control Event (as defined in the agreement and described below), the agreement will automatically terminate and our company is required to pay to Mr. Denny an amount equal to the total of:

1. US\$262,500 (calculated as 18-months salary payable under the agreement); and
 - (b) the cost for a period of 18 months to obtain family and/or spousal health insurance that is similar in coverage to that provided to Mr. Denny as of the date of the change of control.

Under both executive employment agreements, a Change of Control Event means the occurrence of any one of the following events:

1. the acquisition, other than from our company, of beneficial ownership of 50% or more of either the then outstanding shares of common stock of our company or the combined voting power of the then outstanding voting securities of our company entitled to vote generally in the election of directors;
2. the approval by the stockholders of our company of a reorganization, merger or consolidation of our company in which the individuals and entities who were the respective beneficial owners of the common stock and voting securities immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation; or
3. a liquidation or dissolution of our company or the sale or disposition of all or substantially all of the assets of our company, which, for greater certainty, is deemed to occur in the event our company sells or disposes of all or substantially all of the assets of a subsidiary of our company.

Professional Fees

We expect to incur on-going legal, accounting and audit expenses to comply with our reporting responsibilities as a public company under the United States *Securities Exchange Act of 1934, as amended*, in addition to general legal fees for oil and gas and general corporate matters. We estimate our legal and accounting expenses for the next 12-months to be approximately \$100,000.

General and Administrative Expenses

We anticipate spending \$800,000 on general and administrative costs in the next 12-month period. These costs primarily consist of expenses such as lease payments, office supplies, insurance, travel, office expenses, etc.

Cash Used In Operating Activities

Net cash used in operating activities was \$(1,494,065) during the year ended September 30, 2014 as compared to \$(1,182,229) during the year ended September 30, 2013. The reason for the increase is a repayment of amounts due to related parties.

Cash from Investing Activities

Net cash used in investing activities was \$(45,690) during the year ended September 30, 2014 as compared to net cash used investing activities of \$(203,229) in 2013. The reason for the decrease is project advances of \$1,395,000 were received that offset the increase in oil and gas expenditures.

Cash from Financing Activities

Net cash provided by financing activities for the year ended September 30, 2014 was \$1,645,933 compared to \$1,851,738 of net cash used in financing activities in the year ended September 30, 2013. The reason for the decrease is fewer loan proceeds were received and less repayments were made on outstanding debt.

Capital Expenditures

As of September 30, 2014, our company did not have any material commitments for capital expenditures.

Off-Balance Sheet Arrangements

On November 1, 2014, our company and our wholly owned subsidiary, Arkanova Acquisition Corporation ("Acquisition Corp."), entered into a note amendment agreement with Aton Select Funds Limited ("Aton") to be effective November 1, 2014, whereby the parties agreed:

- (a) the maturity date under the amended and restated secured promissory note issued by Arkanova Corp. to Aton as of February 6, 2013, as amended November 15th, 2013 (the “Note”) shall be extended from December 31, 2015 to December 31, 2016 (the “Extension”),
- (b) the current outstanding accrued interest under the Note equal to US\$677,836.40 shall be added to the principal amount of the Note (the “Added Interest”),
- (c) Aton shall loan to Acquisition Corp. an additional US\$2,475,000.00 (the “Additional Loan Amount”) such that the outstanding balance under the Note (including the Added Interest) equals US\$14,963,861.40 (the “Amended Principal Amount”), and
- (d) the sections of the Note with respect to payment of interest in shares of our common be deleted such that interest payments in shares of our common stock is no longer allowed (the “Interest Payment Amendment”).

The Note will be deemed to be amended in all manners and respects related to the Additional Loan Amount, the Extension and the Interest Payment Amendment and, in all other respects, the Note will remain unchanged and in full force and effect.

The Shares were issued pursuant to Regulation S of the United States *Securities Act of 1933, as amended*, to Aton on the basis that Aton represented that it is not a U.S Person as such term is defined in Regulation S.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for revenue recognition, allowance for doubtful accounts, inventory reserves and income taxes. These policies require that we make estimates in the preparation of our financial statements as of a given date.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Going Concern

Due to the uncertainty of our ability to meet our current operating and capital expenses, in their report on the annual financial statements for the year ended September 30, 2014, our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

There is substantial doubt about our ability to continue as a going concern as the continuation of our business is dependent upon obtaining further financing. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

There are no assurances that we will be able to obtain further funds required for our continued operations or for our entry into the petroleum exploration and development industry. We are pursuing various financing alternatives to meet our immediate and long-term financial requirements. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, we will not be able to meet our other obligations as they become due.

Oil and Gas Properties

We utilize the full-cost method of accounting for petroleum and natural gas properties. Under this method, we capitalize all costs associated with acquisition, exploration and development of oil and natural gas reserves, including leasehold acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling of productive and non-productive wells into the full cost pool on a country by country basis. As of September 30, 2014, we had properties with proven reserves. When we obtain proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves proved and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. The costs of unproved properties are not amortized until it is determined whether or not proved reserves can be assigned to the properties. We assess the property at least annually to ascertain whether impairment has occurred. In assessing impairment we consider factors such as historical experience and other data such as primary lease terms of the property, average holding periods of unproved property, and geographic and geologic data. During the year ended September 30, 2014 an impairment of \$630,787 (2013 - \$519,125) was recorded.

Asset Retirement Obligations

We account for asset retirement obligations in accordance with ASC 410-20, Asset Retirement Obligations.

ASC 410-20 requires us to record the fair value of an asset retirement obligation as a liability in the period in which we incur an obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. Asset retirement obligations consists of estimated final well closure and associated ground reclamation costs to be incurred by us in the future once the economic life of our oil and gas wells are reached. The estimated fair value of the asset retirement obligation is based on the current cost escalated at an inflation rate and discounted at a credit adjusted risk-free rate. This liability is capitalized as part of the cost of the related asset and amortized over its useful life. The liability accretes until we settle the obligation.

Recent Accounting Pronouncements

Our company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Arkanova Energy Corporation
Austin, Texas

We have audited the accompanying consolidated balance sheets of Arkanova Energy Corporation and its subsidiaries (collectively, the "Company") as of September 30, 2014 and 2013, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arkanova Energy Corporation and its subsidiaries as of September 30, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Arkanova Energy Corporation will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred cumulative losses since inception and has negative working capital, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MaloneBailey, LLP
www.malonebailey.com
Houston, Texas
December 22, 2014

Arkanova Energy Corporation
Consolidated Balance Sheets

| | September 30, 2014 | September 30, 2013 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 646,814 | \$ 540,636 |
| Short term investment | 25,094 | 15,000 |
| Oil and gas receivables | 117,174 | 134,842 |
| Prepaid expenses and other | 609,512 | 299,147 |
| Total current assets | 1,398,594 | 989,625 |
| Property and equipment, net of accumulated depreciation and impairment of \$335,504 and \$255,032 | 304,392 | 273,581 |
| Oil and gas properties, full cost method | | |
| Evaluated, net of accumulated depletion and impairment of \$18,382,583 and \$17,332,325 | 725,240 | 1,066,680 |
| Other Assets | 97,000 | 97,000 |
| Total assets | <u>\$ 2,525,226</u> | <u>\$ 2,426,886</u> |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Accounts payable | \$ 586,406 | \$ 521,681 |
| Accrued liabilities | 617,649 | 392,058 |
| Due to related party | 38,029 | 265,029 |
| Notes payable | 19,618 | 10,127,592 |
| Project advances | 812,114 | — |
| Other liabilities | 37,500 | 37,500 |
| Total current liabilities | 2,111,316 | 11,343,860 |
| Loans payable | 36,249 | 55,867 |
| Notes payable | 11,811,025 | — |
| Asset retirement obligations | 149,124 | 135,888 |
| Other liabilities | 46,875 | 84,375 |
| Total liabilities | 14,154,589 | 11,619,990 |
| Contingencies and commitments | | |
| Stockholders' Deficit | | |
| Common Stock, \$0.001 par value, 1,000,000,000 shares authorized, 54,182,267 (September 30, 2013 – 49,514,115) shares issued and outstanding | 54,182 | 49,514 |
| Additional paid-in capital | 19,387,453 | 18,823,339 |
| Accumulated deficit | (31,070,998) | (28,065,957) |
| Total stockholders' deficit | (11,629,363) | (9,193,104) |
| Total liabilities and stockholders' deficit | <u>\$ 2,525,226</u> | <u>\$ 2,426,886</u> |

See accompanying notes to consolidated financial statements

Arkanova Energy Corporation
Consolidated Statements of Operations

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|--|--|--|
| Revenue | | |
| Oil and gas sales | \$ 763,303 | \$ 768,916 |
| Operator income | 81,000 | 81,000 |
| Total revenue | 844,303 | 849,916 |
| Expenses | | |
| General and administrative expenses | 1,309,953 | 1,249,240 |
| Oil and gas production costs | 782,008 | 780,958 |
| Accretion | 13,236 | 12,061 |
| Depletion | 419,471 | 431,748 |
| Impairment of oil and gas properties | 630,787 | 519,125 |
| Loss on disposal of equipment | — | 1,917 |
| Operating loss | (2,311,152) | (2,145,133) |
| Other income (expenses) | | |
| Interest expense | (693,889) | (575,023) |
| Gain on derivative liability | — | 2,919 |
| Loss on settlement of debt | — | (29,165) |
| Gain on forgiveness of debt | — | 14,466 |
| Net (loss) income | \$ (3,005,041) | \$ (2,731,936) |
| (Loss) earnings per share – basic and diluted | \$ (0.06) | \$ (0.06) |
| Basic weighted average common shares outstanding | 52,878,000 | 48,865,000 |
| Diluted weighted average common shares outstanding | 52,878,000 | 48,865,000 |

See accompanying notes to consolidated financial statements

Arkanova Energy Corporation
Consolidated Statements of Cash Flows

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|--|--|--|
| Operating Activities | | |
| Net loss | \$ (3,005,041) | \$ (2,731,936) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | |
| Accretion | 13,236 | 12,061 |
| Depreciation | 108,143 | 72,248 |
| Depletion | 419,471 | 431,748 |
| Impairment of oil and gas properties | 630,787 | 519,125 |
| Gain on derivative liability | — | (2,919) |
| Stock-based compensation | 101,967 | 22,832 |
| Loss on settlement of debt | — | 29,165 |
| Gain on forgiveness of debt | — | (14,466) |
| Loss on disposal of equipment | — | 1,917 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other receivables | (311,115) | (269,549) |
| Oil and gas receivables | 18,418 | 12,066 |
| Accounts payable and accrued liabilities | (132,843) | 123,551 |
| Accrued interest | 692,344 | 573,278 |
| Due to related parties | (227,000) | 38,650 |
| Net Cash Used in Operating Activities | (1,691,633) | (1,182,229) |
| Investing Activities | | |
| Purchase of equipment | (138,954) | (102,586) |
| Proceeds from disposal of equipment | — | 187 |
| Oil and gas property expenditures | (511,250) | (85,830) |
| Project advances | 812,114 | — |
| Purchase of short term investment | (10,032) | (15,000) |
| Net Cash Provided by (Used in) Investing Activities | 151,878 | (203,229) |
| Financing Activities | | |
| Principal payments on debt | (59,067) | (348,262) |
| Repayment of related party loan | — | (600,000) |
| Proceeds from issuance of promissory notes | 1,705,000 | 2,500,000 |
| Proceeds from issuance of common stock | — | 300,000 |
| Net Cash Provided by Financing Activities | 1,645,933 | 1,851,738 |
| Net Change in Cash | 106,178 | 466,280 |
| Cash and cash equivalents – beginning of period | 540,636 | 74,356 |
| Cash and cash equivalents – end of period | \$ 646,814 | \$ 540,636 |
| Supplemental Cash Flow and Other Disclosures (Note 16) | | |

See accompanying notes to consolidated financial statements

Arkanova Energy Corporation
Consolidated Statement of Stockholders' Deficit
Period from September 30, 2012 through September 30, 2014

| | Common Stock | | Additional | | |
|---|--------------|-----------|-----------------|-----------------|-----------------|
| | Shares | Par Value | Paid-in Capital | Deficit | Totals |
| Balance – September 30, 2012 | 46,514,115 | \$ 46,514 | \$ 18,503,507 | \$ (25,334,021) | \$ (6,784,000) |
| Shares issued for cash | 3,000,000 | 3,000 | 297,000 | – | 300,000 |
| Stock-based compensation | – | – | 22,832 | – | 22,832 |
| Net loss for the year | – | – | – | (2,731,936) | (2,731,936) |
| Balance – September 30, 2013 | 49,514,115 | \$ 49,514 | \$ 18,823,339 | \$ (28,065,957) | \$ (9,193,104) |
| Stock-based compensation | – | – | 101,967 | – | 101,967 |
| Shares issued to settle interest payable on Note Purchase Agreement | 4,668,152 | 4,668 | 462,147 | – | 466,815 |
| Net loss for the year | – | – | – | (3,005,041) | (3,005,041) |
| Balance – September 30, 2014 | 54,182,267 | \$ 54,182 | \$ 19,387,453 | \$ (31,070,998) | \$ (11,629,363) |

See accompanying notes to consolidated financial statements

Arkanova Energy Corporation
Notes to Consolidated Financial Statements

NOTE 1: BASIS OF PRESENTATION

Arkanova Energy Corporation (formerly Alton Ventures, Inc.) (“Arkanova” or the “Company”) was incorporated in the state of Nevada on September 6, 2001 to engage in the acquisition, exploration and development of mineral properties.

On May 21, 2013, the Nevada Secretary of State accepted for filing the articles of dissolution for the subsidiary Arkanova Development, LLC. Balances remaining were transferred to the intercompany accounts.

NOTE 2: GOING CONCERN

Arkanova is primarily engaged in the acquisition, exploration and development of oil and gas resource properties. Arkanova has incurred losses of \$31,070,998 since inception and has a negative working capital of \$712,722 at September 30, 2014. Management plans to raise additional capital through equity and/or debt financings. These factors raise substantial doubt regarding Arkanova’s ability to continue as a going concern.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These consolidated statements include the accounts of the Company and its wholly-owned subsidiaries, Arkanova Acquisition Corp. and Provident Energy Associates of Montana, LLC. All significant intercompany transactions and balances have been eliminated. The Company has a September 30 year-end.

b) Use of Estimates

The preparation of consolidated financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to useful life and recoverability of long-lived assets, stock-based compensation expense, deferred income tax asset valuations and loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

c) Cash and Cash Equivalents

For purposes of the statement of cash flows, Arkanova considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

d) Basic and Diluted Net Income (Loss) Per Share

Arkanova computes net income (loss) per share in accordance with ASC 260, *Earnings per Share* which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including convertible debt, stock options, and warrants, using the treasury stock method, and convertible securities, using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

e) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, oil and gas receivables, other receivables, accounts payable and accrued liabilities, due to related party, loans payable, and notes payable. Pursuant to ASC 820, *Fair Value Measurements and Disclosures* and ASC 825, *Financial Instruments*, fair value of assets and liabilities measured on a recurring basis include derivative liability determined based on "Level 3" inputs, which are significant and unobservable and have the lowest priority. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

f) Property and Equipment

Property and equipment consists of computer hardware, office furniture and equipment, vehicle, exploration equipment, computer software and leasehold improvements and is recorded at cost, less accumulated depreciation. Property and equipment is amortized on a straight-line basis over its estimated life:

| | |
|--------------------------------|---------|
| Computer hardware | 3 years |
| Office furniture and equipment | 5 years |
| Vehicle | 5 years |
| Exploration equipment | 5 years |
| Computer software | 1 year |
| Leasehold improvements | 5 years |

g) Revenue Recognition

The Company recognizes oil and gas revenue when production is sold at a fixed or determinable price, persuasive evidence of an arrangement exists, delivery has occurred and title has transferred, and collectability is reasonably assured.

h) Accounts Receivable

Accounts receivable are generally reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is determined based on past collection experience and an analysis of outstanding balances. As of September 30, 2014, Arkanova has not recorded an allowance as all receivables are deemed collectable at this time.

i) Oil and Gas Properties

Arkanova utilizes the full-cost method of accounting for petroleum and natural gas properties. Under this method, Arkanova capitalizes all costs associated with acquisition, exploration and development of oil and natural gas reserves, including leasehold acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling of productive and non-productive wells into the full cost pool on a country by country basis. As of September 30, 2014, Arkanova had properties with proven reserves. When Arkanova obtains proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves proved and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. The costs of unproved properties are not amortized until it is determined whether or not proved reserves can be assigned to the properties. Arkanova assesses the property at least quarterly to ascertain whether impairment has occurred. In assessing impairment Arkanova performs a ceiling test calculation and considers factors such as historical experience and other data such as primary lease terms of the property, average holding periods of unproved property, and geographic and geologic data. During the year ended September 30, 2014 an impairment of \$630,787 (2013 - \$519,125) was recorded.

j) Asset Retirement Obligations

Arkanova accounts for asset retirement obligations in accordance with ASC 410-20, *Asset Retirement Obligations*. ASC 410-20 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs an obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. Asset retirement obligations consists of estimated final well closure and associated ground reclamation costs to be incurred by the Company in the future once the economical life of its oil and gas wells are reached. The estimated fair value of the asset retirement obligation is

based on the current cost escalated at an inflation rate and discounted at a credit adjusted risk-free rate. This liability is capitalized as part of the cost of the related asset and amortized over its useful life. The liability accretes until the Company settles the obligation.

k) Long-lived Assets

In accordance with ASC 360, *Property, Plant and Equipment*, the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. Arkanova recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

l) Concentration of Risk

Arkanova maintains its cash accounts in a commercial bank located in Texas, United States. Arkanova's cash accounts are uninsured and insured business checking accounts and deposits maintained in U.S. dollars. As at September 30, 2014, Arkanova has not engaged in any transactions that would be considered derivative instruments on hedging activities.

m) Comprehensive Loss

ASC 220, *Comprehensive Income* establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at September 30, 2014 and 2013, Arkanova has no items that represent comprehensive loss and, therefore, has not included a schedule of comprehensive loss in the financial statements.

n) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. Arkanova has adopted ASC 740, *Income Taxes* as of its inception. Pursuant to ASC 740, Arkanova is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in these financial statements because Arkanova cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

o) Fair value

Accounting standards regarding fair value of financial instruments define fair value, establish a three-level hierarchy which prioritizes and defines the types of inputs used to measure fair value, and establish disclosure requirements for assets and liabilities presented at fair value on the consolidated balance sheets. Fair value is the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants. A liability is quantified at the price it would take to transfer the liability to a new obligor, not at the amount that would be paid to settle the liability with the creditor.

The three-level hierarchy is as follows:

- Level 1 inputs consist of unadjusted quoted prices for identical instruments in active markets.
- Level 2 inputs consist of quoted prices for similar instruments.
- Level 3 valuations are derived from inputs which are significant and unobservable and have the lowest priority.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The carrying amounts reported in the balance sheet for cash, oil and gas receivables, other receivables, accounts payable and accrued liabilities, due to related party, loans payable, and notes payable approximate their fair market value based on the short-term maturity of these instruments.

p) Stock-based Compensation

The Company records stock-based compensation in accordance with ASC 718, *Compensation – Stock Based Compensation* and ASC 505, *Equity Based Payments to Non-Employees*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

q) Recent Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

NOTE 4: SHORT TERM INVESTMENT

On November 22, 2013, the Company invested in a deposit for \$25,000 (September 30, 2013 - \$15,000). The term of the investment is 12 months, maturing on November 22, 2014 and bears interest at a rate of 0.5% annually. Interest earned on the investment up to September 30, 2014 is \$94. The investment is to secure a letter to the US Environmental Protection Agency for \$23,595 for one of the Company's wells.

NOTE 5: PREPAID EXPENSES

At September 30, 2014, the Company has \$609,512 (2013 - \$299,147) of prepaid expenses and other assets. This balance consists of the following items:

| | 2014 | 2013 |
|-----------------------|-------------------|-------------------|
| Aton receivable | \$ 135,231 | \$ 67,431 |
| Employee receivable | — | 750 |
| Knightwall receivable | 462,550 | 225,249 |
| Prepaid expenses | 11,731 | 5,717 |
| | <u>\$ 609,512</u> | <u>\$ 299,147</u> |

NOTE 6: PROPERTY AND EQUIPMENT

| | Cost | Accumulated Depreciation | September 30, 2014 Net Carrying Value | September 30, 2013 Net Carrying Value |
|--------------------------------|-------------------|-----------------------------|--|--|
| Computer hardware | \$ 10,440 | \$ 6,301 | \$ 4,139 | \$ — |
| Exploration equipment | 431,074 | 171,375 | 259,699 | 203,420 |
| Leasehold improvements | 17,100 | 10,669 | 6,431 | 9,851 |
| Office furniture and equipment | 25,225 | 22,221 | 3,004 | 477 |
| Vehicle | 156,057 | 124,938 | 31,119 | 59,833 |
| | <u>\$ 639,896</u> | <u>\$ 335,504</u> | <u>\$ 304,392</u> | <u>\$ 273,581</u> |

During the year ended September 30, 2014, the Company purchased \$138,954 (2013 - \$102,586) of property and equipment.

NOTE 7: OIL AND GAS INTERESTS

Arkanova is currently participating in oil and gas exploration activities in Colorado and Montana. All of Arkanova's oil and gas properties are located in the United States.

Proven and Developed Properties, Arkansas and Colorado and Montana

During the year ended September 30, 2014, the Company incurred costs of \$708,818 that were capitalized to their oil and gas properties. At September 30, 2014, the carrying value of the evaluated oil and gas properties exceeded the present value of the estimated future net revenue; therefore, an impairment of \$630,787 (2013 - \$519,125) was recorded. The carrying value of Arkanova's evaluated oil and gas properties at September 30, 2014 and 2013 was \$725,240 and \$1,066,680, respectively. At September 30, 2014, the Company holds \$812,114 of project advances shown as a current liability on the consolidated balance sheet. These funds were received from the other working interest partners and will be used for costs incurred on the waterflood project.

NOTE 8: EARNINGS (LOSS) PER SHARE

A reconciliation of the components of basic and diluted net income per common share is presented in the tables below:

| For the Year Ended September 30, | | | | | | |
|--|--|--------------|------------------|--|--------------|-----------|
| 2014 | | | 2013 | | | |
| Income (Loss) | Weighted Average Common Shares Outstanding | Per Share | Income (Loss) | Weighted Average Common Shares Outstanding | Per Share | |
| Basic: | | | | | | |
| Income (loss) attributable to common stock | \$ (3,005,041) | 52,878,000 | \$ (0.06) | \$ (2,731,936) | 48,865,000 | \$ (0.06) |
| Effective of Dilutive Securities: | | | | | | |
| Stock options and other | — | — | — | — | — | — |
| Diluted: | | | | | | |
| Income (loss) attributable to common stock, including assumed conversions | \$ (3,005,041) | 52,878,000 | \$ (0.06) | \$ (2,731,936) | 48,865,000 | \$ (0.06) |

NOTE 9: RELATED PARTY TRANSACTIONS

- (a) At September 30, 2014, the Company owed backpay of \$5,000 (2013 - \$145,000) to the President of the Company and \$33,029 (2013 - \$120,029) to the CFO of the Company.
- (b) On March 1, 2014, the Company granted 300,000 options to the Company's CEO, 300,000 options to the Company's CFO, 300,000 options to a director and 700,000 options to employees. The fair value of the stock options granted was \$62,100.
- (c) During the year ended September 30, 2012, the Company received a \$400,000 loan and two \$200,000 loans from the President of the Company, which are non-interest bearing. The \$400,000 loan was to be repaid by September 30, 2012. The two \$200,000 loans have no terms of repayment. On July 5, 2012, the Company repaid one of the \$200,000 loans. On October 4, 2012, the Company repaid the \$400,000 loan and the remaining \$200,000 loan.

NOTE 10: NOTES PAYABLE

- (a) On July 1, 2012, the Company's subsidiary entered into a Loan Modification Agreement to borrow an additional \$1,000,000 and consolidate its 2011 Note into one promissory note in the principal amount for \$8,315,000 (the "2012 Note"), including accrued interest of \$315,000. The 2012 Note bears interest at 6% per annum, is due on June 30, 2013, and, as was the case with the 2011 Note, is secured by our guarantee and also a pledge of all of Acquisition's interest in its wholly owned subsidiary, Provident. Interest on the 2012 Note shall be paid within 10 business days following the maturity date in shares of common stock of the Company. The number of shares of common stock shall be determined by dividing \$498,900 by the average stock price of the Company over the 15 business day period immediately preceding the maturity date. On October 3, 2012, the Company received the additional \$1,000,000 from the note holder.

Arkanova evaluated the application of ASC 470-50 and ASC 470-60 and determined that the 2011 Note and 2012 Note were not substantially different. As a result, it was concluded that the revised terms constituted a debt modification rather than a debt extinguishment.

On February 6, 2013, the Company's subsidiary entered into a Loan Modification Agreement to borrow an additional \$1,500,000 and consolidate its 2012 Note into one promissory note in the principal amount for \$10,106,025 (the "2013 Note"), including accrued interest of \$291,025. The 2013 Note bears interest at 6% per annum, is due on March 31, 2014, and, as was the case with the 2012 Note, is secured by our guarantee and also a pledge of all of Acquisition's interest in its wholly owned subsidiary, Provident. Interest on the 2013 Note shall be paid within 10 business days following the maturity date in shares of common stock of the Company. The number of shares of common stock shall be determined by dividing \$707,422 by the average stock price of the Company over the 15 business day period immediately preceding the maturity date. On February 6, 2013, the Company received \$500,000 of the \$1,500,000 funding from the note holder. The balance of \$1,000,000 was received by the Company on June 4, 2013.

Arkanova evaluated the application of ASC 470-50 and ASC 470-60 and determined that the 2012 Note and 2013 Note were not substantially different. As a result, it was concluded that the revised terms constituted a debt modification rather than a debt extinguishment.

On November 15, 2013, the Company's subsidiary entered into a Loan Modification Agreement to borrow an additional \$1,705,000 for a total amount of \$11,811,025, extend the maturity date from March 31, 2014 to December 31, 2015, and converted outstanding accrued interest of \$466,815 into 4,668,152 shares of common stock at a deemed price of \$0.10 per share. The common shares were issued on January 10, 2014. Refer to Note 11.

Arkanova evaluated the November 15, 2013 modification under the guidance found in ASC 470-50 and ASC 470-60 and determined that the carrying value of the 2012 Note did not exceed the total future cash payments of the 2013 Note and that the notes were not substantially different. As a result, it was concluded that the revised terms constituted a debt modification rather than a debt extinguishment and no gain or loss was recorded.

On November 1, 2014, the Company's subsidiary entered into a Loan Modification Agreement to borrow an additional \$2,475,000 for a total amount of \$14,963,861, extend the maturity date from December 31, 2015 to December 31, 2016. Refer to Note 18(c).

- (b) On November 24, 2009, the Company entered into a loan agreement in the amount of \$56,303 to purchase equipment. The loan bears interest at 7.69% and is to be repaid in 48 equal monthly installments commencing December 30, 2009. During the year ended September 30, 2014, the Company repaid a principal amount of \$2,707. The balance of the loan is \$0 at September 30, 2014.
- (c) On June 25, 2013, the Company entered into a loan agreement in the amount of \$79,300 to purchase equipment. The loan bears interest at 3.95% and is to be repaid in 48 equal monthly installments commencing July 28, 2013. During the year ended September 30, 2014, the Company repaid a principal amount of \$18,860. The balance of the loan is \$55,867 at September 30, 2014.

The following principal payments for notes payable are required:

| | | |
|------|----|------------|
| 2015 | \$ | 19,618 |
| 2016 | \$ | |
| | | 11,831,432 |
| 2017 | \$ | 15,842 |

NOTE 11: COMMON STOCK**Common stock**

- a) On January 10, 2014, Arkanova issued 4,668,152 shares of common stock to Aton Select Funds Limited as an interest payment for outstanding interest of \$466,815.
- b) On December 14, 2012, Arkanova issued 2,000,000 shares of common stock at \$0.10 per share to the President of the Company for cash proceeds of \$200,000.
- c) On December 26, 2012, Arkanova issued 1,000,000 shares of common stock at \$0.10 per share to the President of the Company for cash proceeds of \$100,000.

Stock Options

On April 25, 2007, Arkanova adopted a stock option plan named the 2007 Stock Option Plan (the "Plan"), the purpose of which is to attract and retain the best available personnel and to provide incentives to employees, officers, directors and consultants, all in an effort to promote the success of Arkanova. Prior to the grant of options under the 2007 Stock Option Plan, there were 5,000,000 shares of Arkanova's common stock available for issuance under the plan.

On July 17, 2010, Arkanova amended and restated the 2008 Amended Stock Option Plan to revise the termination provision for vested Non-Qualified Stock Options. The termination date of vested Non-Qualified Stock Options was extended from a period of three months to a period of one year.

On March 1, 2014, the Company granted 1,600,000 stock options valued at \$62,100 with immediate vesting to directors, officers, and employees to acquire 1,600,000 common shares at an exercise price of \$0.10 per share expiring in 5 years. The grant date fair value of the options using the Black-Scholes option pricing model was \$0.04.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|--------------------------|--|--|
| Expected dividend yield | 0.00% | 0.00% |
| Expected volatility | 209% | 175% |
| Expected life (in years) | 5.00 | 5.00 |
| Risk-free interest rate | 1.51% | 1.60% |

During the year ended September 30, 2014 and 2013, no stock options were exercised. Stock-based compensation of \$101,967 (2013 - \$22,832) was recorded for the year ended September 30, 2014. During the year ended September 30, 2014, no stock options (2013 - 1,303,333) expired unexercised and no stock options (2013 - 250,000) were forfeited.

A summary of Arkanova's stock option activity is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------------------------|----------------------|--|---|---------------------------------|
| Outstanding, September 30, 2012 | 4,653,333 | \$ 0.27 | | |
| Granted | 100,000 | 0.24 | | |
| Forfeited | (250,000) | 0.31 | | |
| Expired | (1,303,333) | 0.37 | | |
| Outstanding, September 30, 2013 | 3,200,000 | \$ 0.22 | | |
| Granted | 1,600,000 | \$ 0.10 | | |
| Expired | — | — | | |
| Outstanding, September 30, 2014 | 4,800,000 | \$ 0.10* | | |
| Exercisable, September 30, 2014 | 4,800,000 | \$ 0.10* | 4.56 | \$ — |

* On November 15, 2013, Arkanova amended the terms of the outstanding stock options to decrease the exercise price from \$0.12 - \$0.25 to \$0.10 and extend the expiry dates from November 19, 2013 – October 8, 2015 to September 30, 2018 – December 31, 2018. The weighted average grant date fair value of the modified stock options was \$0.01 and the original stock-based compensation expense recognized of \$101,967 was increased by an additional stock-based compensation expense of \$39,867 related to the modification.

The fair value of each option amendment was estimated on the date of the amendment using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Pre - Amendment | Post - Amendment |
|--------------------------|--------------------|---------------------|
| Expected dividend yield | 0.00% | 0.00% |
| Expected volatility | 214% | 214% |
| Expected life (in years) | 1.42 | 5.12 |
| Risk-free interest rate | 0.23% | 1.36% |

At September 30, 2014, there was \$0 of unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan. There was \$0 intrinsic value associated with the outstanding options at September 30, 2014.

Warrants

A summary of the changes in the Company's common share purchase warrants is presented below:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------------------------|-----------------------|--|---|---------------------------------|
| Outstanding, September 30, 2012 | 1,168,235 | \$ 0.48 | | |
| Expired | (1,068,235) | \$ 0.43 | | |
| Outstanding, September 30, 2013 | 100,000 | \$ 1.00 | | |

| | | | | | | |
|---------------------------------|-----------|------|---|---|----|---|
| Expired | (100,000) | 1.00 | | | | |
| Outstanding, September 30, 2014 | – | \$ | – | – | \$ | – |

NOTE 12: DERIVATIVE INSTRUMENTS

In June 2008, the FASB ratified ASC 815-15, *Derivatives and Hedging – Embedded Derivatives* (“ASC 815-15”). ASC 815-15, specifies that a contract that would otherwise meet the definition of a derivative, but is both (a) indexed to its own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. ASC 815-15 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock, including evaluating the instrument’s contingent exercise and settlement provisions, and thus able to qualify for the ASC 815-15 scope exception. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. ASC 815-15 is effective for the first annual reporting period beginning after December 15, 2008 and early adoption is prohibited. On March 19, 2008 (the “Closing Date”), pursuant to the John Thomas Bridge & Opportunity Fund Warrant Agreement (the “Warrant Agreement”), Arkanova issued common stock purchase warrants to purchase up to 250,000 additional shares of common stock (the “Warrants”). The initial exercise price of the Warrants is \$0.65 per share, subject to adjustment therein, with a term of exercise equal to 5 years.

The Warrants are subject to adjustment pursuant to certain events, including a full ratchet reset feature. Additionally, the number of shares of common stock to be received upon the exercise of the Warrants (the “Warrant Shares”) and the exercise price of the Warrants are subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the common stock that occur after the Closing Date.

The warrants issued during the year ended September 30, 2008 are not afforded equity treatment because these warrants have a down-round ratchet provision on the exercise price. As a result, the warrants are not considered indexed to the Company’s own stock, and as such, the fair value of the derivative liability is reflected on the balance sheet and all future changes in the fair value of these warrants are recognized currently in earnings in the consolidated statement of operations under the caption “Gain (loss) on derivative liability” until such time as the warrants are exercised or expire. The total fair values of the warrants at the end of each period were determined using a lattice model and the changes in fair value were recognized in the consolidated statements of operations. The warrants were valued at each period end until they expire using a multi-nominal lattice model with the following assumptions:

- The 5 year warrants issued to the investor on March 19, 2008 included 250,000 warrants adjusted to 601,852 with an exercise price of \$0.65 reset to \$0.27 in 2009 and reset from 601,852 to 738,636 shares following the October 11, 2011 reset to an exercise price of \$0.22; and adjusted from 738,636 to 773,810 shares following Q3 2012 reset to an exercise price of \$0.21.
- The stock price would fluctuate with Company projected volatility.
- The stock price would fluctuate with an annual volatility. The projected volatility curve was based on historical volatilities of the Company for the valuation periods.
- The Holder would not exercise the warrant as they become exercisable (effective registration is projected 4 months from issuance) at target price of 2 times the projected reset price or higher but would hold the warrants to maturity.
- The Holder would exercise the warrant at maturity if the stock price was above the project reset prices.
- A 10% probability of a reset event and a projected financing each year in December and June at prices approximating 100% of market.
- No warrants have been exercised or expired.

The impact of ASC 815-15 for the year ending September 30, 2013 resulted in a decrease in the derivative liability of \$2,919 with a corresponding gain of \$2,919 on derivative instruments. On March 31, 2013, the purchase warrants expired and the fair value of the derivative liability was \$0.

NOTE 13: FAIR VALUE MEASUREMENTS

ASC 825 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

ASC 825 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 825 establishes three levels of inputs that may be used to measure fair value.

Level 1

Level 1 applies to assets and liabilities for which there are quoted prices in active markets for identical assets or liabilities. Valuations are based on quoted prices that are readily and regularly available in an active market and do not entail a significant degree of judgment.

Level 2

Level 2 applies to assets and liabilities for which there are other than Level 1 observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 2 instruments require more management judgment and subjectivity as compared to Level 1 instruments. For instance:

Determining which instruments are most similar to the instrument being priced requires management to identify a sample of similar securities based on the coupon rates, maturity, issuer, credit rating and instrument type, and subjectively select an individual security or multiple securities that are deemed most similar to the security being priced; and Determining whether a market is considered active requires management judgment.

Level 3

Level 3 applies to assets and liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity.

The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

NOTE 14: COMMITMENTS

See Note 10.

- (a) The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company maintains insurance coverage, which it believes is customary in the industry, although the Company is not fully insured against all environmental risks. The Company is not aware of any environmental claims existing as of September 30, 2014, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company's properties.
- (b) On June 10, 2011, the Company commenced a lease agreement for a period of 62 months. The monthly base rate begins at \$2,750 and increases every 12 months at the average rate of \$2,883 per month over the term of the lease. Lease expense for the year was \$58,548 (2013 - \$54,648). Lease payments at the monthly base rate for the remainder of the lease term are as follows:

| | |
|------|-----------|
| 2015 | \$ 37,354 |
| 2016 | \$ 32,083 |

- (c) On December 14, 2012, the Company reached a preliminary settlement with Ms. Billie Eustice, whereby it is contemplated that the Company will pay Ms. Eustice \$150,000 over four years beginning January 28, 2013 in 48 equal monthly installments in settlement of all outstanding matters and issues between Ms. Eustice and the Company, including the balance owing on the consulting agreement in the amount of \$125,000, oil barrels in the tanks at time of purchase, and a refund of \$12,000 that was a tax refund prior to the purchase of Provident Energy and cashed by Provident Energy after the purchase. During the year ended September 30, 2013, the Company recorded a loss of \$29,165 on settlement of debt which represents the difference between the amount recorded in accounts payable before the settlement and the agreed settlement amount of \$150,000. During the year ended September 30, 2014, the Company repaid a total of \$37,500 (2013 - \$28,125) to Ms. Eustice. At September 30, 2014, there is a total balance owing of \$84,375 of which \$37,500 is current and \$46,875 is long term. The following principal payments are required:

| | |
|------|-----------|
| 2015 | \$ 37,500 |
| 2016 | \$ 37,500 |
| 2017 | \$ 9,375 |

NOTE 15: ASSET RETIREMENT OBLIGATION

Changes in Arkanova's asset retirement obligations were as follows:

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|---|-------------------------------------|-------------------------------------|
| Asset retirement obligations, beginning of period | \$ 135,888 | \$ 123,827 |
| Accretion expense | 13,236 | 12,061 |
| Asset retirement obligations, end of period | \$ 149,124 | \$ 135,888 |

NOTE 16: SUPPLEMENTAL CASH FLOW AND OTHER DISCLOSURES

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|--|-------------------------------------|-------------------------------------|
| Supplemental Disclosures: | | |
| Interest paid | \$ 2,631 | \$ 1,646 |
| Income taxes paid | \$ — | \$ — |
| Noncash Financing and Investing Activities | | |
| Shares issued to settle accrued interest on note payable | \$ 466,815 | |
| Accrued interest converted into note payable | \$ — | \$ 291,025 |
| Note payable related to capital expenditures | \$ — | \$ 79,300 |

NOTE 17: INCOME TAXES

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has incurred non-capital losses as scheduled below:

| Year of Loss | Amount | Year of Expiration |
|-----------------|-----------|-----------------------|
| 2006 | \$ 16,548 | 2026 |
| 2007 | 493,777 | 2027 |
| 2008 | 1,199,618 | 2028 |
| 2009 | 3,853,251 | 2029 |
| 2010 | 3,008,921 | 2030 |
| 2011 | 2,628,028 | 2031 |
| 2012 | 1,636,396 | 2032 |
| 2013 | 1,660,225 | 2033 |
| 2014 | 1,731,437 | 2034 |

\$ 16,228,201

Pursuant to ASC 740, the Company is required to compute tax asset benefits for non-capital losses carried forward. Potential benefit of non-capital losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the losses carried forward in future years.

Significant components of the Company's deferred tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

| | 2014 | 2012 |
|-------------------------------|--------------|--------------|
| Deferred income tax assets | | |
| Net losses carried forward | \$ 5,679,870 | \$ 5,073,867 |
| | 5,679,870 | 5,073,867 |
| Valuation allowance | (5,679,870) | (5,073,867) |
| Net deferred income tax asset | \$ — | \$ — |

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized and consequently have not been recorded in these financial statements

NOTE 18: SUBSEQUENT EVENTS

- (a) On October 1, 2014, the Company entered into a revised executive employment agreement with the Chief Executive Officer of the Company. The revised executive employment agreement replaced the agreement that was entered into on March 1, 2014. Pursuant to the terms of the revised executive employment agreement the Chief Executive Officer will receive an annual salary of \$240,000 for a term of one year. The revised executive employment agreement will automatically renew if not terminated in writing by either party no less than sixty days prior to the expiration of the revised executive employment agreement.
- (b) On October 1, 2014, the Company entered into a revised executive employment agreement with the Chief Financial Officer of the Company. The revised executive employment agreement replaced the agreement that was entered into on March 1, 2014. Pursuant to the terms of the revised executive employment agreement the Chief Executive Officer will receive an annual salary of \$175,000 for a term of one year. The revised executive employment agreement will automatically renew if not terminated in writing by either party no less than sixty days prior to the expiration of the revised executive employment agreement.
- (c) On November 1, 2014, the Company's subsidiary entered into a Loan Modification Agreement to borrow an additional \$2,475,000 for a total loan amount of \$14,963,861 which includes accrued interest of \$677,836. In addition the maturity date was extended from December 31, 2015 to December 31, 2016 and the ability of the Company to pay interest in shares of the Company's common stock was terminated. Refer to Note 10(a).

NOTE 19: SUPPLEMENTAL OIL AND GAS INFORMATION Capitalized Costs Related to Oil and Gas Producing Activities

| | September 30, 2014 | September 30, 2013 |
|--|-----------------------|-----------------------|
| Evaluated oil and gas properties | \$ 19,107,823 | \$ 18,399,005 |
| Less accumulated depletion and impairment | (18,382,583) | (17,332,325) |
| Net capitalized costs for evaluated oil and gas properties | \$ 725,240 | \$ 1,066,680 |

Costs incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

| | September 30, 2014 | September 30, 2013 |
|--------------------------------------|-----------------------|-----------------------|
| Evaluated Property Acquisition Costs | \$ — | \$ — |
| Evaluated Exploration Costs | 708,818 | 85,830 |
| | \$ 708,818 | \$ 85,830 |

Results of Operations from Oil and Gas Producing Activities

| | September 30, 2014 | September 30, 2013 |
|--|-----------------------|-----------------------|
| Revenue | \$ 844,303 | \$ 849,916 |
| Production costs | (782,008) | (780,958) |
| Depletion, depreciation and amortization | (419,471) | (431,748) |
| Impairment of oil and gas properties | (630,787) | (519,125) |
| Loss from oil and gas operations | \$ (987,963) | \$ (881,915) |

Reserve Information

The following estimates of proved reserve and proved developed reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the Company's reserves are located in the United States.

Future cash flows are computed by applying prices of oil which are based on the respective 12-month unweighted average of the first of the month prices to period end quantities of proved oil reserves. The 12-month unweighted average of the first of the month market prices used for the standardized measures below was \$77.69/barrel and \$78.77/barrel for liquids for September 30, 2014 and 2013. Future operating expenses and development costs are computed primarily by the Company's petroleum engineers by estimating the expenditures to be incurred in developing and producing the Company's proved natural gas and oil reserves at the end of the period, based on period end costs and assuming continuation of existing economic conditions.

Future income taxes are based on period end statutory rates, adjusted for tax basis and applicable tax credits. A discount factor of ten percent was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost of fair value of the Company's natural gas and oil properties. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimate of natural gas and oil producing operations.

Proved Oil and Gas Reserve Quantities

| | September 30, 2014 | September 30, 2013 |
|----------------------------------|------------------------------|------------------------------|
| | Oil (MbbBBL) | Oil (MbbBBL) |
| Balance beginning of the year | 38,170 | 87,678 |
| Revisions of previous estimates | 4,685 | (39,726) |
| Production | (9,765) | (9,782) |
| Transfer of oil and gas interest | — | — |
| Balance end of the year | 33,090 | 38,170 |

Standardized Measure of Discounted Future Net Cash Flow

| | September 30, 2014 | September 30, 2013 |
|--|-----------------------|-----------------------|
| Future cash inflows | \$ 2,570,759 | \$ 3,006,650 |
| Future production and development costs | (1,437,698) | (1,600,136) |
| Future income tax expenses | (396,571) | (492,280) |
| Future net cash flows | 736,490 | 914,234 |
| 10% annual discount for estimated timing of cash flows | (153,925) | (220,893) |

| | | | | |
|--|----|---------|----|---------|
| Standardized measure of discounted future net cash flows | \$ | 582,565 | \$ | 693,341 |
|--|----|---------|----|---------|

Sources of Changes in Discounted Future Net Cash Flows

| | September 30, 2014 | September 30, 2013 |
|---|-----------------------|-----------------------|
| Standardized measure of discounted future net cash flows at the beginning of the year | \$ 693,341 | \$ 1,517,550 |
| Accretion of discount | 106,668 | 233,469 |
| Development costs incurred | 708,818 | 85,830 |
| Changes in estimated development costs | (699,208) | (21,269) |
| Revision of previous quantity estimates | 131,757 | (1,319,808) |
| Net change in prices and production costs | (604,275) | (645,981) |
| Net change in income taxes | 59,649 | 443,805 |
| Sales of oil and gas produced, net of production costs | 18,705 | 12,042 |
| Transfer of oil and gas interest | — | — |
| Timing differences and other | 167,110 | 387,703 |
| Standardized measure of discounted future net cash flows at the end of the year | \$ 582,565 | \$ 693,341 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As required by paragraph (b) of Rules 13a-15 under the Exchange Act, our principal executive officer and principal financial officer evaluated our company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, these officers concluded that as of the end of the period covered by this annual report on Form 10-K, our company's disclosure controls and procedures were not effective. The ineffectiveness of our company's disclosure controls and procedures was due to the existence of material weaknesses identified below.

The disclosure controls and procedures are controls and procedures that are designed to ensure that the information required to be disclosed by our company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and include controls and procedures designed to ensure that such information is accumulated and communicated to our company's management, including our company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the *Sarbanes-Oxley Act*, management has conducted an assessment, including testing, using the criteria in Internal Control - Integrated Framework, issued by the *Committee of Sponsoring Organizations of the Treadway Commission* ("COSO"). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Based on our evaluation under the framework in Internal Control-Integrated Framework, our chief executive officer and our chief financial officer concluded that our internal control over financial reporting were not effective as of September 30, 2014. The ineffectiveness of our internal control over financial reporting was due to the existence of significant deficiencies constituting material weaknesses. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

Management has identified the following material weaknesses:

- We do not have accounting staff with sufficient U.S. GAAP expertise;

- There was insufficient segregation of duties in our finance and accounting function due to limited personnel. During the year ended September 30, 2014, we had limited staff that performed nearly all aspects of our financial reporting process, including, but not limited to, access to the underlying accounting records and systems, the ability to post and record journal entries and responsibility for the preparation of the financial statements. This creates certain incompatible duties and a lack of review over the financial reporting process that would likely result in a failure to detect errors in spreadsheets, calculations, or assumptions used to compile the financial statements and related disclosures as filed with the Securities and Exchange Commission. These control deficiencies could result in a material misstatement to our financial statements that would not be prevented or detected; and

We intend to take appropriate and reasonable steps to make the necessary improvements to remediate these material weaknesses. In particular, we intend to hire more staff with U.S. GAAP expertise if we can obtain additional financing or our revenues increase.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting.

There were no changes in our company's internal control over financial reporting during the year ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors and Executive Officers

As at the date of this report, our directors and executive officers, their ages, positions held, and duration of such, are as follows:

| Name | Position Held with the Company | Age | Date First Elected or Appointed |
|----------------------------|---|------------|--|
| Pierre Mulacek | Chief Executive Officer, President and Director | 52 | April 23, 2007 |
| Reginald Denny | Chief Financial Officer Director | 67 | October 18, 2007 April 20, 2010 |
| Erich Hofer ⁽¹⁾ | Director | 52 | March 19, 2007 |

⁽¹⁾ Member of our audit committee and compensation committee.

Business Experience

The following is a brief account of the education and business experience of our directors and executive officers during at least the past five years, indicating their respective principal occupations during the period, and the name and principal business of the organization by which they were employed.

Pierre Mulacek – Chief Executive Officer, President and Director

Mr. Mulacek has over 20 years' experience in all facets of the oil and gas industry. Mr. Mulacek attended Texas Tech University from 1979 to 1983 with a focus on Petroleum Land Management until he joined Petroleum Independent and Exploration Corporation as Vice President. Mr. Mulacek was also a founding shareholder of InterOil Corp., an integrated oil and gas company listed on the New York Stock Exchange.

We believe Mr. Mulacek is qualified to serve on our board of directors because of his knowledge of our company's history and current operations, which he gained from working for our company since April 2007, in addition to his education and business experiences as described above.

Reginald Denny – CPA Texas, Chief Financial Officer and Director

Mr. Denny has extensive experience in the controller and senior management functions of companies in the oil and gas, manufacturing and services industries. Mr. Denny has managed the accounting, finance, audit, tax, human resources, banking relations, insurance, legal, planning, treasury, credit, forecasting and budgeting functions; reporting to federal and state regulatory agencies. From January 2006 to 2007, Mr. Denny was an independent consultant performing the duties of a controller with several companies. From 1993 to 2005, Mr. Denny was the chief financial officer and controller of a manufacturing company, an international company in the manufacture, service, assembly and sales of trenching machines for the oil and gas industry.

Mr. Denny received his BBA in Accounting, minor in Finance from the University of Houston and is a registered Certified Public Accountant in Texas.

We believe Mr. Denny is qualified to serve on our board of directors because of his knowledge of our company's history and current operations, which he gained from working for our company since October 2007, in addition to his education and business experiences as described above.

Erich Hofer – Director

Mr. Hofer is ~~an independent~~ director of our company. Mr. Hofer ~~leads~~ has been a great resource to our company with respect to business development ~~for our company and has been~~ and was specifically instrumental in securing our company's largest project acquisition to date. Mr. Hofer brings over fifteen years of international financial and management expertise to our company. He served from January 2005 to September 2007 as Group CFO for Argo-Hytos Ltd., a mobile hydraulic application manufacturer, headquartered in Baar, Switzerland. Prior to this, Mr. Hofer served from September 2001 to March 2004 as chief of staff and deputy of the group CEO at Schneeberger Ltd, a linear technology manufacturer, located in Roggwil, Switzerland. Prior to this time, Mr. Hofer served in various executive management leadership roles in several industrial and financial service companies in Switzerland. Mr. Hofer holds an MBA from the University of Chicago (2004) and a B.S. in Economics and Management from the University for Applied Science for Business and Administration in Zurich (1993). Mr. Hofer is also a Certified Management Accountant in Switzerland.

We believe Mr. Hofer is qualified to serve on our board of directors because of his knowledge of our company's history and current operations, which he gained from working ~~for~~ with our company in a director capacity since March 2007, in addition to his education and business experiences as described above.

Term of Office

Our directors hold office until the next annual meeting of shareholders and until their successors have been elected and qualified, or until they resign or are removed. Our officers are elected by our board of directors. Our officers hold office until the next annual meeting of our board of directors and until their successions have been elected and qualified, or until they resign or are removed.

Family Relationships

There are no family relationships among our directors or officers.

Involvement in Certain Legal Proceedings

Our directors and executive officers have not been involved in any of the following events during the past ten years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
4. being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
5. being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (i) any federal or state securities or commodities law or regulation; or (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease- and-desist order, or removal or prohibition order; or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
6. being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Securities Exchange Act of 1934), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Compliance with ~~Section 16(a) of the Exchange Act~~, Section 16(a) of the Exchange Act.

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10% shareholders are required by the SEC regulations to furnish us with copies of all Section 16(a) reports that they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, except as noted below, we believe that all filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with.

| Name | Number of Late Reports | Number of Transactions that were not Reported on a Timely Basis | Failure to File a Required Form |
|----------------|------------------------|--|------------------------------------|
| Pierre Mulacek | 1 | 1 | N/A |
| Reginald Denny | Nil | Nil | N/A |
| Erich Hofer | Nil | Nil | N/A |

¹ The stock option expiry transaction and the stock option amendment transactions were filed outside the required time period.

Code of Ethics

Effective December 18, 2007, our company's board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our company's president (being our principal executive officer) and our company's chief financial officer (being our principal financial and accounting officer), as well as persons performing similar functions. As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

- (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- (3) compliance with applicable governmental laws, rules and regulations;
- (4) the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
- (5) accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our company's personnel shall be accorded full access to our president and secretary with respect to any matter which may arise relating to the Code of Business Conduct and Ethics. Further, all of our company's personnel are to be accorded full access to our company's board of directors if any such matter involves an alleged breach of the Code of Business Conduct and Ethics by our president or secretary.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our company's president or secretary. If the incident involves an alleged breach of the Code of Business Conduct and Ethics by the president or secretary, the incident must be reported to any member of our board of directors. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our company's Code of Business Conduct and Ethics by another.

We will provide a copy of the Code of Business Conduct and Ethics to any person without charge, upon request. Requests can be sent to: Arkanova Energy Corp., at the address on the cover page of this annual report on Form 10-K.

Corporate Governance

Director Independence

We currently act with three directors, consisting of Pierre Mulacek, Erich Hofer and Reginald Denny. We have determined that Erich Hofer is an independent director as defined by NASDAQ Listing Rule 5605(a)(2).

We currently act with a standing audit committee and a compensation committee. We do not have a standing nominating committee but our entire board of directors acts as our nominating committee.

Audit Committee

Our audit committee consists of Erich Hofer. Mr. Hofer is a non-employee director of our company and is independent as defined by NASDAQ Listing Rule 5605(a)(2). The audit committee is directed to review the scope, cost and results of the independent audit of our books and records, the results of the annual audit with management and the adequacy of our accounting, financial and operating controls; to recommend annually to the board of directors the selection of the independent registered accountants; to consider proposals made by the independent registered accountants for consulting work; and to report to the board of directors, when so requested, on any accounting or financial matters.

Audit Committee Financial Expert

Our board of directors has determined that it does not have a member that qualifies as an “audit committee financial expert” as defined in Item 407(d)(5)(ii) of Regulation S-K. We believe that our board of directors is capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. In addition, we believe that retaining an independent director who would qualify as an “audit committee financial expert” would be overly costly and burdensome and is not warranted in our circumstances given the early stages of our development.

Compensation Committee

Our compensation committee consists of Erich Hofer. Mr. Hofer is a non-employee director of our company and is independent as defined by NASDAQ Listing Rule 5605(a)(2). The compensation committee oversees our compensation and employee benefit plans, stock option plan and practices and produces a report on executive compensation. The compensation committee acts in accordance with our Compensation Committee Charter.

Nomination Process

As of the date of this report, we did not effect any material changes to the procedures by which our shareholders may recommend nominees to our board of directors. Our board of directors does not have a policy with regards to the consideration of any director candidates recommended by our shareholders. Our board of directors has determined that it is in the best position to evaluate our company’s requirements as well as the qualifications of each candidate when the board considers a nominee for a position on our board of directors. If shareholders wish to recommend candidates directly to our board, they may do so by sending communications to the president of our company at the address on the cover of this annual report.

Board Leadership Structure

The positions of our principal executive officer and the chairman of our board of directors are served by two individuals, Pierre Mulacek and Reginald Denny. We have determined that the leadership structure of our board of directors is appropriate, especially given the early stage of our development and the size of our company. Our board of directors provides oversight of our risk exposure by receiving periodic reports from senior management regarding matters relating to financial, operational, legal and strategic risks and mitigation strategies for such risks.

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation

The following table sets forth all compensation received during the two years ended September 30, 2014 by our chief executive officer, chief financial officer and each of the other most highly compensated executive officers whose total compensation exceeded \$100,000 in such fiscal years. These officers are referred to as the named executive officers in this annual report.

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---|------|-------------|------------|-------------------|--------------------|---|--|-----------------------------|------------|
| Pierre Mulacek Chief Executive Officer, President and Director | 2014 | 318,750 | Nil | Nil | Nil | Nil | (140,000) | Nil | 206,232 |
| | 2013 | 275,000 | Nil | Nil | | Nil | (35,000) | Nil | 240,000 |
| Reginald Denny Chief Financial Officer and Director | 2014 | 262,000 | Nil | Nil | 24,390 | Nil | (87,000) | Nil | 199,390 |
| | 2013 | 116,350 | Nil | Nil | Nil | Nil | 73,650 | Nil | 190,000 |

Compensation Discussion and Analysis

There are no arrangements or plans in which we provide pension, retirement or similar benefits for directors or executive officers. Our directors and executive officers may receive stock options at the discretion of our board of directors in the future. We do not have any material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that stock options may be granted at the discretion of our board of directors from time to time. Except as disclosed in this section, we have no plans or arrangements in respect of remuneration received or that may be received by our executive officers to compensate such officers in the event of termination of employment (as a result of resignation, retirement, change of control) or a change of responsibilities following a change of control.

On November 11, 2014, we entered into an executive employment agreement effective October 1, 2014 with Pierre Mulacek, our chief executive officer, president and a director of our company. We agreed to pay an annual salary of US\$240,000 to Mr. Mulacek in consideration for him carrying out his duties as an executive of our company. Mr. Mulacek disclosed his interest with respect to the executive employment agreement and abstained from voting on the approval of the agreement. The agreement replaces a former written agreement effective July 17, 2012, as amended on March 1, 2014 (reducing Mr. Mulacek's salary from \$240,000 to \$135,000 per annum), which expired on July 17, 2014. The parties had continued under the terms of the former written agreement and sought to document the terms with an updated written agreement on the same terms of the former agreement. The only term of the new executive employment agreement that has been revised is the compensation has returned to \$240,000 per annum.

Pursuant to the terms of the agreement, and in the event our company undergoes a Change of Control Event (as defined in the agreement and described below), the agreement will automatically terminate and our company is required to pay to Mr. Mulacek an amount equal to the total of:

1. US\$360,000 (calculated as 18-months salary payable under the agreement); and
 - (a) the cost for a period of 18 months to obtain family and/or spousal health insurance that is similar in coverage to that provided to Mr. Mulacek as of the date of the change of control.

On November 11, 2014, we also entered into an executive employment agreement effective October 1, 2014 with Reginald Denny, our chief financial officer and a director of our company. We agreed to pay an annual salary of US\$175,000 to Mr. Denny in consideration for him carrying out his duties as an executive of our company. Mr. Denny disclosed his interest with respect to the executive employment agreement and abstained from voting on the approval of the agreement. The agreement also replaces a former written agreement effective July 17, 2012, as amended effective October 1, 2013 (reducing Mr. Denny's salary from \$190,000 to \$175,000 per annum), which also expired on July 17, 2014. The parties had continued under the terms of the former written agreement and sought to document the terms with an updated written agreement on the same terms of the former agreement. Under the new executive employment agreement, Mr. Denny's compensation remains at \$175,000.

Pursuant to the terms of the agreement, and in the event our company undergoes a Change of Control Event (as defined in the agreement and described below), the agreement will automatically terminate and our company is required to pay to Mr. Denny an amount equal to the total of:

1. US\$262,500 (calculated as 18-months salary payable under the agreement); and
- (b) the cost for a period of 18 months to obtain family and/or spousal health insurance that is similar in coverage to that provided to Mr. Denny as of the date of the change of control.

Under both executive employment agreements, a Change of Control Event means the occurrence of any one of the following events:

1. the acquisition, other than from our company, of beneficial ownership of 50% or more of either the then outstanding shares of common stock of our company or the combined voting power of the then outstanding voting securities of our company entitled to vote generally in the election of directors;
2. the approval by the stockholders of our company of a reorganization, merger or consolidation of our company in which the individuals and entities who were the respective beneficial owners of the common stock and voting securities immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation; or
3. a liquidation or dissolution of our company or the sale or disposition of all or substantially all of the assets of our company, which, for greater certainty, is deemed to occur in the event our company sells or disposes of all or substantially all of the assets of a subsidiary of our company.

Outstanding Equity Awards at Fiscal Year-End

We established a 2008 Amended Stock Option Plan, as amended, to provide for the issuance of stock options to acquire an aggregate of up to 5,000,000 shares of our common stock.

The particulars of unexercised options, stock that has not vested and equity incentive plan awards for our named executive officers are set out in the following table:

| Name | Options Awards | | | | | Stock Awards | | | |
|----------------|---|---|--|---|---|---|--|---|--|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price (\$) | Option Expiration Date m/d/y | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| Pierre Mulacek | 600,000 ⁽¹⁾ 650,000 ⁽¹⁾ 300,000 | Nil | Nil | \$0.10 ⁽¹⁾ \$0.10 ⁽¹⁾ \$0.10 | 12/31/2018 ⁽¹⁾ 12/31/2018 ⁽¹⁾ 03/01/2019 | N/A | N/A | N/A | N/A |
| Reginald Denny | 100,000 350,000 550,000 300,000 | Nil | Nil | \$0.10 ⁽²⁾ \$0.10 ⁽²⁾ \$0.10 ⁽²⁾ \$0.10 | 09/30/2018 ⁽²⁾ 12/31/2018 ⁽²⁾ 12/31/2018 ⁽²⁾ 03/01/2019 | N/A | N/A | N/A | N/A |

⁽¹⁾ Mr. Mulacek was appointed our president, secretary and treasurer on April 23, 2007. Mr. Mulacek was granted 600,000 options at an exercise price of \$0.20 on October 14, 2009. On October 8, 2010, we entered into a Stock Option Agreement with Mr. Mulacek and issued him an additional 650,000 options in consideration for services provided as chief executive officer, president and director. Each option is exercisable into one common share at the exercise price of \$0.25 until October 8, 2015. All of the options vest immediately. On November 15, 2013 we re-priced the exercise price to \$0.10 and extended the expiry date to December 31, 2018.

⁽²⁾ Mr. Denny was appointed our chief financial officer on October 18, 2007. Mr. Denny was granted 200,000 options at an exercise price of \$1.70 on October 18, 2007 (of which 150,000 have been exercised and 50,000 have since expired), 350,000 options at an exercise price of \$0.39 on June 19, 2008 which options vested immediately and have since expired; 100,000 options at an exercise price of \$0.12 on November 14, 2008 and 350,000 options at an exercise price of \$0.20 on October 14, 2009. On November 14, 2008, our company repriced the 200,000 options held by Mr. Denny from \$1.70 per share to \$0.10 per share. Pursuant to the terms of an amended stock option agreement dated November 14, 2008, we agreed to amend the vesting provisions such that all of the remaining options not already vested under the original agreement vested on November 14, 2008, the date of the amended agreement. On October 8, 2010, we entered into a Stock Option Agreement with Mr. Denny and issued him an additional 550,000 options in consideration for services provided as chief financial officer. Each option is exercisable into one common share at the exercise price of \$0.25 until October 8, 2015. All of the options vest immediately. On November 15, 2013 we re-priced the exercise price of the options to \$0.10 and extended the expiry date to September 30, 2018 and December 31, 2018.

Long-Term Incentive Plan

Other than our 2008 Amended Stock Option Plan, our company does not have a long-term incentive plan in favor of any director, officer, consultant or employee of our company.

Pension and Retirement Plans

Currently, we do not offer any annuity, pension or retirement benefits to be paid to any of our officers, directors or employees, in the event of retirement.

Director Compensation

The particulars of compensation paid to our directors who are not named executive officers for our year ended September 30, 2014, is set out in the following director compensation table:

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings | All Other Compensation (\$) | Total (\$) |
|-------------|----------------------------------|-------------------|--------------------|---|---|-----------------------------|------------|
| Erich Hofer | 6,000 | Nil | 7,787 | Nil | Nil | Nil | 13,787 |

We have no formal plan for compensating our directors for their service in their capacity as directors, although such directors are expected in the future to receive stock options to purchase common shares as awarded by our board of directors or (as to future stock options) a compensation committee. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. Our board of directors may award special remuneration to any director undertaking any special services on our behalf other than services ordinarily required of a director. No director received and/or accrued any compensation for their services as a director, including committee participation and/or special assignments.

Outstanding Equity Awards at Fiscal Year-End

We established a 2008 Amended Stock Option Plan, as amended, to provide for the issuance of stock options to acquire an aggregate of up to 5,000,000 shares of our common stock.

The particulars of unexercised options, stock that has not vested and equity incentive plan awards for our directors are set out in the following table:

| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price (\$) | Option Expiration Date m/d/y | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|-------------|---|---|--|--|--|---|--|---|--|
| Erich Hofer | 300,000 300,000 300,000 | Nil | Nil | \$0.10 ⁽¹⁾ \$0.10 ⁽¹⁾ \$0.10 | 12/31/2018 ⁽¹⁾ 12/31/2018 ⁽¹⁾ 03/01/2019 | N/A | N/A | N/A | N/A |

⁽¹⁾ Mr. Hofer was appointed to our board of directors on March 19, 2007. Mr. Hofer was granted 300,000 options at an exercise price of \$0.20 on October 14, 2009, expiring October 14, 2014, and 300,000 options at an exercise price of \$0.25 on October 8, 2010 expiring October 8, 2015. All of the options vest immediately. On November 15, 2013 we re-priced the exercise price to \$0.10 and extended the expiry date to December 31, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth, as at the date of this report, certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common stock and by our directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated. Except as otherwise noted, the number of shares beneficially owned includes common stock which the named person has the right to acquire, through conversion or option exercise, or otherwise, within 60 days after the date of this report. Beneficial ownership calculations for 5% stockholders are based solely on publicly filed Schedule 13Ds or 13Gs, which 5% stockholders are required to file with the Securities and Exchange Commission.

Security ownership of certain beneficial owners

| Title of class | Name and address of beneficial owner | Amount and nature of beneficial ownership ¹ | Percent of class |
|----------------|---|--|------------------|
| Common Stock | Centrum Bank AG Kirchstrasse 3 Postfach 1168 Vaduz, FL-9490 Liechtenstein | 5,234,117 Direct | 9.7% |
| Common Stock | Aton Select Fund Limited Aeulestrasse 5 9490 Vaduz Vaduz, Liechtenstein | 5,234,117 Direct | 9.7% |
| Common Stock | Aton Select Funds Limited Aeulestrasse 5 9490 Vaduz Vaduz, Switzerland | 7,872,900 Direct | 14.5% |
| | | 18,341,134 | 33.90% |

¹ Based on 54,182,267 shares of common stock issued and outstanding as of December 16, 2014.

Security ownership of management.

| Title of class | Name and address of beneficial owner | Amount and nature of beneficial ownership ¹ | Percent of class |
|----------------|---|--|------------------|
| Common Stock | Pierre Mulacek PO Box 2601 Conroe TX 77305 | 6,037,500 Direct ² | 11.1% |
| Common Stock | Erich Hofer Grossackerstrasse 64 CH-8041 Zurich, Switzerland | 1,200,000 Direct ³ | 2.2% |
| Common Stock | Reginald Denny 16709 French Harbour Court Austin, Texas 78734 | 1,450,000 Direct ⁴ | 2.7% |
| | Directors and Executive Officers as a Group | 8,687,500 | 16.00% |

¹ Based on 54,182,267 shares of common stock issued and outstanding as of December 16, 2014.

² Consists of 4,487,500 shares of common stock and stock options to acquire an aggregate of 1,550,000 shares of common stock exercisable within 60 days of the date of this report.

- 3 Consists of 300,000 shares of common stock and stock options to acquire an aggregate of 900,000 shares of common stock exercisable within 60 days of the date of this report.
- 4 Consists of 150,000 shares of common stock, and stock options to acquire an aggregate of 1,300,000 shares of common stock exercisable within 60 days of the date of this report.

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change of control of our company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with related persons.

Other than as set forth herein, and to our knowledge, no director, executive officer, principal shareholder holding at least 5% of our common shares, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction, during the years ended September 30, 2014 and 2013 or in any currently proposed transaction, in which the amount involved in the transaction exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at the year-end for the last two completed fiscal years.

On October 28, 2013 we paid \$20,000 back pay to Pierre Mulacek, our Chief Executive Officer, President and director, and \$15,000 back pay to Reginald Denny, our Chief Financial Officer and director, resulting in a \$125,000 balance to Mr. Mulacek and \$105,029 owing to Mr. Denny.

On November 22, 2013, our company and our wholly owned subsidiary, Arkanova Acquisition Corporation, entered into a note amendment and interest conversion agreement with Aton Select Funds Limited ("Aton"), a related person of our company as a result of holding more than 5% our common stock, to be effective November 15, 2013, whereby: (i) Aton agreed to increase the amount outstanding under a 2013 promissory note by \$1,705,000.00 such that the outstanding principal balance under the promissory note equaled US\$11,811,025.00; (ii) Aton converted the outstanding accrued interest equal to US\$466,815.29 into 4,668,152 shares of our common stock at a deemed price of US\$0.10 per share; and (iii) Aton agreed to extend the maturity date under the promissory note from March 31, 2014 to December 31, 2015.

On November 29, 2013 we paid \$125,000 back pay to Pierre Mulacek resulting in a zero balance owing to Mr. Mulacek.

On December 9, 2013 we paid \$50,000 back pay to Reginald Denny resulting in a \$55,029 balance owing to Mr. Denny.

At September 30, 2014, we owed back pay of \$5,000 (2013 - \$145,000) to Pierre Mulacek and \$33,029 (2013 - \$120,029) to Reginald Denny.

On March 1, 2014, we granted 300,000 options to Pierre Mulacek, 300,000 options to Reginald Denny and 300,000 options to Erich Hofer, a director of our company. Each option is exercisable into one share of our common stock for a period of five years at an exercise price of \$0.10 per share.

On November 1, 2014, Arkanova Acquisition Corporation entered into a further note amendment agreement with Aton to be effective November 1, 2014, whereby the parties agreed:

- (a) the maturity date under the amended and restated secured promissory note issued by Arkanova Corp. to Aton as of February 6, 2013, as amended November 15th, 2013 was extended from December 31, 2015 to December 31, 2016 (the "2014 Extension").
- (b) the current outstanding accrued interest under the note equal to US\$677,836.40 was added to the principal amount of the note (the "Added Interest").
- (c) Aton agreed to loan to Arkanova Acquisition Corporation an additional US\$2,475,000.00 (the "Additional Loan Amount") such that the outstanding balance under the note (including the Added Interest) equalled US\$14,963,861.40, and

(d) the sections of the note with respect to payment of interest in shares of our common be deleted such that interest payments in shares of our common stock is no longer allowed (the “Interest Payment Amendment”).

The note was deemed to be amended in all manners and respects related to the 2014 Extension, Added Interest, Additional Loan Amount and the Interest Payment Amendment and, in all other respects, the note remained unchanged and in full force and effect.

Compensation for Executive Officers and Directors

For information regarding compensation for our executive officers and directors, see Item 11 – “Executive Compensation” beginning on page 51.

Director Independence

We currently act with three directors, consisting of Pierre Mulacek, Erich Hofer and Reginald Denny. We have determined that only Erich Hofer is an independent director as defined by NASDAQ Listing Rule 5605(a)(2). The other two directors are not independent as defined by NASDAQ Listing Rule 5605(a)(2) because they are our executive officers.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit fees

The aggregate fees billed for the two most recently completed years ended September 30, 2014 and 2013 for professional services rendered by MaloneBailey, LLP, of Houston, Texas for the audit of our annual consolidated financial statements, reviews of our quarterly consolidated financial statements and services normally provided by the independent accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

| | Year Ended September 30, 2014 | Year Ended September 30, 2013 |
|-----------------------------------|-------------------------------------|-------------------------------------|
| Audit Fees and Audit Related Fees | 37,000 \$ | 37,000 |
| Tax Fees | nil | nil |
| All Other Fees | nil | nil |
| Total | 37,000 \$ | 37,000 |

In the above table, “audit fees” are fees billed by our company’s external auditor for services provided in auditing our company’s annual financial statements for the subject year. “Audit-related fees” are fees not included in audit fees that are billed by the auditor for assurance and related services that are reasonably related to the performance of the audit review of our company’s financial statements. “Tax fees” are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning. “All other fees” are fees billed by the auditor for products and services not included in the foregoing categories.

Policy on Pre-Approval by Audit Committee of Services Performed by Independent Auditors

The board of directors pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the board of directors before the respective services were rendered.

The board of directors has considered the nature and amount of fees billed by MaloneBailey, LLP and believes that the provision of services for activities unrelated to the audit is compatible with maintaining the independence of MaloneBailey, LLP.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

| | |
|-------------|--|
| 3) | (i) Articles of Incorporation and (ii) Bylaws |
| 3.1 | Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on August 19, 2004) |
| 3.2 | Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on August 19, 2004) |
| 3.3 | Articles of Merger filed with the Secretary of State of Nevada on October 17, 2006 (incorporated by reference from our Current Report on Form 8-K filed on November 1, 2006) |
| 3.4 | Certificate of Change filed with the Secretary of State of Nevada on October 17, 2006 (incorporated by reference from our Current Report on Form 8-K filed on November 1, 2006) |
| (4) | Instruments defining the rights of security holders including indentures |
| 4.1 | Debenture with John Thomas Bridge & Opportunity Fund (incorporated by reference from our Current Report on Form 8-K filed on March 26, 2008) |
| (10) | Material Contracts |
| 10.1 | 10% Promissory Note dated July 14, 2008 issued by our company to Aton Select Fund Limited in the principal amount of \$375,000 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on August 14, 2008) |
| 10.2 | Form of Note Purchase Agreement dated September 3, 2008 between our company and an unaffiliated lender (incorporated by reference from our Current Report on Form 8-K/A filed on December 10, 2008) |
| 10.3 | Amended and Restated Stock Option Agreement dated November 14, 2008 with Reginald Denny (incorporated by reference from our Current Report on Form 8-K filed on November 20, 2008) |
| 10.4 | Note Purchase Agreement dated April 17, 2009 between our company and Global Project Finance AG (incorporated by reference from our Current Report on Form 8-K filed on May 13, 2009) |
| 10.5 | Promissory Note dated April 17, 2009 issued by our company to Global Project Finance AG (incorporated by reference from our Current Report on Form 8-K filed on May 13, 2009) |
| 10.6 | Note Purchase Agreement dated April 29, 2009 between our company and Aton Select Fund Limited (incorporated by reference from our Current Report on Form 8-K filed on May 13, 2009) |
| 10.7 | Promissory Note dated April 29, 2009 issued by our company to Aton Select Fund Limited (incorporated by reference from our Current Report on Form 8-K filed on May 13, 2009) |
| 10.8 | Loan Consolidation Agreement dated as of October 1, 2009, between Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on October 7, 2009) |
| 10.9 | Note Purchase Agreement dated as of October 1, 2009, between Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on October 7, 2009) |
| 10.10 | Promissory Note dated October 1, 2009, of Arkanova Acquisition Corporation (incorporated by reference from our Current Report on Form 8-K filed on October 7, 2009) |
| 10.11 | Stock Option Agreement dated October 14, 2009 with Pierre Mulacek (incorporated by reference from our Current Report on Form 8-K filed on October 19, 2009) |
| 10.12 | Stock Option Agreement dated October 14, 2009 with Erich Hofer (incorporated by reference from our Current Report on Form 8-K filed on October 19, 2009) |
| 10.13 | Stock Option Agreement dated October 14, 2009 with Reginald Denny (incorporated by reference from our Current Report on Form 8-K filed on October 19, 2009) |

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| 10.14 | Purchase and Sale Agreement dated April 9, 2010, by and between Provident Energy Associates of Montana, LLC, as Seller, and Knightwall Invest, Inc., as Buyer (incorporated by reference from our Current Report on Form 8-K filed on April 12, 2010) |
| 10.15 | Note Purchase Agreement dated as of the 17 th day of July, 2010, between our company and Global Project Finance AG (incorporated by reference from our Quarterly Report on Form 10-Q filed on August 13, 2010) |
| 10.16 | Stock Option Agreement dated October 8, 2010 with Pierre Mulacek (incorporated by reference from our Current Report on Form 8-K filed on October 14, 2010) |
| 10.17 | Stock Option Agreement dated October 8, 2010 with Reginald Denny (incorporated by reference from our Current Report on Form 8-K filed on October 14, 2010) |
| 10.18 | Stock Option Agreement dated October 8, 2010 with Erich Hofer (incorporated by reference from our Current Report on Form 8-K filed on October 14, 2010) |
| 10.19 | Option Agreement dated November 22, 2010 between Provident Energy Associates of Montana, LLC and Knightwall Invest, Inc. (incorporated by reference from our Current Report on Form 8-K filed on November 26, 2010) |
| 10.20 | Conversion and Loan Modification Agreement dated as of October 1, 2011 between Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on November 3, 2011) |
| 10.21 | Note Purchase Agreement dated as of October 1, 2011, between Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on November 3, 2011) |
| 10.22 | Promissory Note dated October 1, 2011, with Arkanova Acquisition Corporation (incorporated by reference from our Current Report on Form 8-K filed on November 3, 2011) |
| 10.23 | Guaranty Agreement between Arkanova Energy Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on November 3, 2011) |
| 10.24 | Loan Modification Agreement dated as of July 1, 2012, between Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on August 13, 2012). |
| 10.25 | Amended and Restated Note Purchase Agreement dated as of July 1, 2012, between Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on August 13, 2012). |
| 10.26 | Amended and Restated Promissory Note dated July 1, 2012, with Arkanova Acquisition Corporation as maker (incorporated by reference from our Current Report on Form 8-K filed on August 13, 2012). |
| 10.27 | Guaranty Agreement between Arkanova Energy Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K filed on August 13, 2012). |
| 10.28 | Form of Subscription Agreement (incorporated by reference from our Current Report on Form 8-K filed on December 14, 2012). |
| 10.29 | Form of amendment to the stock option agreement (incorporated by reference from our Current Report on Form 8-K and filed on November 20, 2013) |
| 10.30 | Note Amendment and Conversion Agreement dated as of November 15, 2013, among Arkanova Energy Corporation, Arkanova Acquisition Corporation and Aton Select Funds Limited. (incorporated by reference from our Current Report on Form 8-K and filed on November 22, 2013) |
| 10.31 | Stock Option Agreement dated March 1, 2014 with Pierre Mulacek (incorporated by reference from our Current Report on Form 8-K and filed on March 6, 2014) |
| 10.32 | Stock Option Agreement dated March 1, 2014 with Reginald Denny (incorporated by reference from our Current Report on Form 8-K and filed on March 6, 2014) |

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|---------------------------------------|--|
| 10.33 | Stock Option Agreement dated March 1, 2014 with Erich Hofer (incorporated by reference from our Current Report on Form 8-K and filed on March 6, 2014) |
| 10.34 | Executive Employment Agreement dated October 1, 2014 with Pierre Mulacek (incorporated by reference from our Current Report on Form 8-K and filed on November 11, 2014) |
| 10.35 | Executive Employment Agreement dated October 1, 2014 with Reginald Denny (incorporated by reference from our Current Report on Form 8-K and filed on November 11, 2014) |
| 10.36 | Note Amendment Agreement dated as of November 1, 2014, among Arkanova Energy Corporation, Arkanova Acquisition Corporation and Aton Select Funds Limited (incorporated by reference from our Current Report on Form 8-K and filed on November 6, 2014) |
| (21) | Subsidiaries |
| 21.1 | Arkanova Development LLC (Nevada Limited Liability Company) - dissolved May 24, 2013 |
| 21.2 | Arkanova Acquisition Corporation (Delaware) |
| 21.3 | Prism Corporation (Oklahoma) |
| 21.4 | Provident Energy of Montana, LLC (Montana Limited Liability Company) |
| (23) | Consents of Experts and Counsel |
| 23.1* | Consent of MaloneBailey, LLP |
| (31) | Section 302 Certification |
| 31.1* | Section 302 Certification under Sarbanes-Oxley Act of 2002 of Pierre Mulacek |
| 31.2* | Section 302 Certification under Sarbanes-Oxley Act of 2002 of Reginald Denny |
| (32) | Section 906 Certification |
| 32.1* | Section 906 Certification under Sarbanes-Oxley Act of 2002 |
| (99) | Additional Exhibits |
| 99.1 | Report of Gustavson Associates dated December 16, 2011 on Montana Properties (incorporated by reference from our annual report on Form 10-K filed on December 29, 2011) |
| 99.2 | Report of Gustavson Associates dated December 18, 2012 on Montana Properties (incorporated by reference from our annual report on Form 10-K filed on December 31, 2012) |
| 99.3 | Report of Gustavson Associates dated November 25, 2013 on Montana Properties (incorporated by reference from our annual report on Form 10-K filed on December 24, 2013) |
| 99.4* 99.4 | Report of Gustavson Associates dated November 18, 2014 on Montana Properties (incorporated by reference from our annual report on Form 10-K filed on December 23, 2014) |
| 99.5 | 2008 Amended and Restated Stock Option Plan (incorporated by reference from our Current Report on Form 8-K and filed on November 20, 2013) |
| (101) | XBRL |
| 101.INS* | XBRL INSTANCE DOCUMENT |
| 101.SCH* | XBRL TAXONOMY EXTENSION SCHEMA |
| 101.CAL* | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE |
| 101.DEF* | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE |
| 101.LAB* | XBRL TAXONOMY EXTENSION LABEL LINKBASE |
| 101.PRE* | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE |

*Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARKANOVA ENERGY CORPORATION

“Pierre Mulacek”

By: Pierre Mulacek
Chief Executive Officer, President and Director
(Principal Executive Officer)

Dated: ~~December 23, 2014~~ _____, 2015

“Reginald Denny”

By: Reginald Denny
Chief Financial Officer and Director
(Principal Financial Officer and
Principal Accounting Officer)

Dated: ~~December 23, 2014~~ _____, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

“Pierre Mulacek”

By: Pierre Mulacek
Chief Executive Officer, President and Director
(Principal Executive Officer)

Dated: ~~December 23, 2014~~ _____, 2015

“Reginald Denny”

By: Reginald Denny
Chief Financial Officer and Director
(Principal Financial Officer and
Principal Accounting Officer)

Dated: ~~December 23, 2014~~ _____, 2015

“Erich Hofer”

By: Erich Hofer
Director

Dated: ~~December 23, 2014~~ _____, 2015

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